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Public Enterprises

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PREFACE

PUBLIC ENTERPRISES have come to occupy a key role in the policies and programmes of economic development in our country. In the very nature of things, it is expected that the public enterprises will have an expanding role in times to come. The logic of establishment of public enterprises, as a part of socio-economic policy, is inherent in the economy. Public enterprises have been set up not simply for ideological reasons. They are the product of economic compulsions. Besides an activist role, which the government is to play in a developing country as a matter of social policy, we find that many public enterprises had to be set up because of the unenterprising or mis-enterprising nature of private entrepreneurs. Also, in many strategic industries and others requiring huge investments and longer gestation period, the private entrepreneurs were hardly equipped to make any substantive contribution. It is true that, in the beginning, there were no comprehensive policy guidelines regarding the role and place of public sector in India. In addition to this disadvantage, the evolution of policy for the public sector has not always been able to take note of the changing requirements of the economy and aspirations of the enterprises.

The present volume comprises articles selected by Professor S.K. Goyal from various issues of *The Indian Journal of Public Administration*. At the time of selection, it was felt that as the subject of public enterprises is of continuing social significance in general in our planning set up, it would be useful if some articles of more enduring value were compiled in a separate volume for ready reference. The articles cover all important aspects of the public sector in the country, such as organisational structure, personnel policies, pricing policy, efficiency, accountability and autonomy.

As the growth of public sector has been phenomenal since the attainment of Indian independence, it is only appropriate that we discuss issues in the historical perspective and analyse the current problems and the future trends. Public enterprises in India have a number of objectives. This very often creates difficulties in reconciling the demands of profit maximisation as well as the social demands. Similarly, effort has to be made to see that disparate objectives are so organised that those who are working for public enterprises as well as the general public have

a clarity of understanding as to what for a particular enterprise stands and what is expected of it.

Achievement of objectives naturally depends upon the organisational and structural arrangements. In the Indian economic scene, we find that the public enterprises have a wide diversity of legal sanction and organisational structures in the frame of mixed economy of our country. As such, the question of pricing of public sector products assumes great importance, basically from the viewpoint of making contribution to the National Exchequer and for giving further momentum to diversified economic development.

For adequate functioning of enterprises, personnel policies, including those relating to motivation, workers' participation and the role of trade unions also assume great importance. If public enterprises have to function effectively, the management has to be entrusted with authority commensurate with its responsibilities. The question of evolving performance indicators for public enterprises and for measurement of efficiency also become important. In view of the limited resources and competing needs, the scientific financial management of public enterprises cannot be ignored. It becomes, therefore, necessary that the implications of autonomy and accountability are properly appreciated.

In any democratic administration, no segment of public life can be free from accountability. Autonomy has to be earned through performance and with a continuing awareness of accountability. It is, therefore, essential that an objective and dispassionate approach is made to the genesis and the difficulties of public sector with a view to improving their performance and to ensure that they are able to perform the role as assigned to them. Public enterprises come in for a good deal of misinformed criticism because their functioning is much more public as compared to private sector. A good deal of fresh thinking has been generated as to how the public enterprises and the public sector should be able to come up to the expectations of the people and to cope up with, at times hostile, ideological consideration, including denigration launched by certain sections having vested interests of their own. However, the basic problem of efficiency in its wide social sense can not be lost sight of. People are anxious that while suitable environment and facilities must be provided to the public sector, it should also keep in view that a public enterprise is an institutional device and if it does not establish its credibility, naturally the search for new models will commence. The public sector management cannot be allowed to seek perpetual refuge in excuses or alibies.

It is gratifying to note that the intricacy of the issues involved have been highlighted by Professor S.K. Goyal in his comprehensive and stimulating introduction. It is not necessary that one should be in full agreement with his diagnosis or prescription. But he raises certain issues

which are of great relevance and have to be considered if we really want public enterprises to discharge a positive role in our overall quest for an egalitarian society.

I am thankful to Professor S.K. Goyal for the pains that he has taken in the preparation of this volume. I believe that it will be of help in delineating a balanced picture of the role and the working of public enterprises as well as their limitations and possibilities. This volume, because of its comprehensiveness, will be of interest to students of Public Administration as well as those concerned with the formulation of policies and the management of public enterprises. Shri K.P. Phatak and his professional colleagues working in IIPA Library have provided a short and relevant bibliography on the theme for which I am thankful to them.

I am also thankful to Shri P.R. Dubhashi, Director Indian Institute of Public Administration, who gave me the opportunity to bring out this volume.

NEW DELHI
SEPTEMBER 1984

T.N. CHATURVEDI

INTRODUCTION

THIS VOLUME contains 19 articles on different aspects of the public sector, selected from previous volumes of the Indian Journal of Public Administration. The contributions have been grouped under five heads. The first group of contributions deals with the Role and Organisational Aspects of the Indian Public Sector; and the other groups are: Personnel, Pricing and Efficiency, Autonomy and Accountability and State Sector.

In absence of a clear and comprehensive policy document on the precise role and place of the public sector in India, one observes that each author views the primary role of the public sector in India from a different angle. V.K.R.V. Rao (1964), for instance, considers that public sector enterprises in India have been developed under an overall scheme of planning and "behind this planned development there is a social and economic philosophy". To Rao, the public sector was an "army of the constitutional advance of this country into a socialistic democracy". He concludes: "to my mind they are the sappers and miners of our socialist army". V.K.R.V. Rao's contribution does reflect the mood and expectations of the mid-sixties. H.K. Paranjape, G. Venkataswamy and others see the Indian Public sector more an economic necessity and an instrument of the planning than a sector representing an ideology.

Since independence, the magnitude and significance of public sector in the Indian economy has increased rapidly. This is evident from the growth rate in its assets and the variety of economic activities now being undertaken in this sector. The sector has vastly expanded in public utilities, industry, finance and commerce and trade. In a way, it has achieved expectations of the planners, as expressed in the Fourth Five Year Plan, that the public sector should achieve 'commanding heights' in the economy.[1] Has this led the country nearer to socialistic society? Many scholars of the 'eighties' would question the synonymity of public sector with that of a socialist march in India. In contrast to the commonly held belief of the 'sixties', the public sector in India with its increasing economic power is currently seen more as a promoter of private sector and monopoly capital than as a countervailing force to furtherance of concentration of economic power in private hands. For instance, V.K.R.V. Rao,

[1]India. *Fourth Five Year Plan*, 1969, New Delhi, p. 28.

himself an ardent supporter of the sector, is now of the view that there was need for an agency that will keep under review the working of public sector enterprises in terms of the social, economic and political consequences of the concentration of economic power they possess.[2]

Public sector expansion, during the early stages of planning in India, was mainly restricted to basic and strategic industries. These industries, in any case, were beyond the financial and entrepreneurial capabilities of the private sector during that period. It was, therefore, obvious that without rapid expansion of public sector, the scope for private sector expansion was a very limited one. Further, it was clear that high profits and surpluses could not accrue to the public sector since the sector was supposed to undertake long-term gestation investments with low profitability. On the other hand, processing and manufacturing industries and trade were essentially earmarked for the private sector, on an understanding that these activities were remunerative and individual initiative could easily be forthcoming. Within this framework, public and private sectors were seen as complementary to each other.

In absence of the requisite industrial infrastructure (power, transport, and communications) and near non-existence of basic industries, like steel, aluminium, oil, and chemicals, the private sector suffered from a number of constraints. Thus, restricting the public sector to public utilities, basic and heavy industries was a decision that was in no way in conflict or contrary to the like of those who otherwise find a clear merit in the philosophy of free market oriented economies. The decision to expand public sector at a rapid pace, as per the Industrial Policy Statement of 1948 or the Resolution of 1956, was welcomed by them as a pragmatic decision suitable to national development.

Public sector in India, since independence, has undoubtedly grown big; it has, however, no clear character—except that the ownership of the sector happens to be that of the government. Defence industries, railways and a large many public utility undertakings were also promoted by the British in the public sector. With the political independence of the country the public sector was further expanded through the unavoidable nationalisation of the Reserve Bank of India and a few of the enterprises that were foreign dominated. Initiation of the process of planning widened still further the scope of the public sector as a promoter of economic growth. Consequently, a number of large public industrial enterprises and financial institutions got promoted. Over the years, a number of private sector undertakings were nationalised and this has also added to the public sector expansion in a significant manner. The reasons for the take-over, however, have not been the same.

[2]V.K.R.V. Rao, in Foreword to S.K. Goyal, *Monopoly Capital and Public Policy*, 1979, Allied Publishers, Delhi, p. xxiv.

These have differed from time to time. For instance, the Imperial Bank of India was nationalised to rationalise the Indian banking system; Life Insurance business, to ensure growth in a coordinated manner; private airlines, as a salvage operation and to provide for safe, expanded and efficient air transport; and the nationalisation of the fourteen private commercial banks in 1969 had its own political context and economic and social reasons. Management of a number of private enterprises had to be taken over under the *Industries (Development and Regulation) Act 1951* for reasons of unscrupulous practices by the managements. An equally large number of private companies and establishments were taken over to protect interests of the employees. In fact, nationalisation has been resorted to for differing reasons at different points of time. If a catalogue of reasons for public sector in India is prepared, one could hardly cite a case to show that the country has ignored any plausible reason(s) for public sector expansion through nationalisation. A consistent policy towards nationalisation, as contemplated in the Industrial Policy Statement of 1948, has been missing, as indeed the precise objectives of public sector in India have never been clearly spelt out. Consequently, whenever the Government is faced with a problem that warrants immediate action, the choice falls on directing the public sector to provide an answer with appropriate plausible reasons.

Not only does there appear to be an absence of consistency in processes of nationalisation, but this is equally true of other expectations from the public sector. For instance, when it was felt that the problem of backward areas should be attended to on priority, it led to an additional objective being assigned to public enterprises. During the First Five Year Plan, since the process of planned development had to be initiated, the public sector was assigned the responsibilities as promoter of the growth process. Adoption of 'Socialistic Pattern of Society' as a national objective by the beginning of the Second Plan led the government to assert that public sector would help to transform the Indian polity into a socialist one. The Third Plan period was charged with an intense discussion and concern on the phenomenon of concentration of economic power in private hands. This led to public sector development being described as a countervailing force. Efforts towards finding a solution to the problem of foodgrains shortages, and the consequential need for procuring and maintaining food stocks, resulted in the public sector being assigned the task to provide food and other essential supplies to consumers at a low price. In the 'seventies', the public sector was viewed as a promoter of exports and an earner of foreign exchange. It is curious that many of the public sector projects and activities which were conceived and justified as pre-requisites to India's own industrial development, are now being expected to show results in terms of export earnings. Of late, it is openly asserted that the public sector should

restrict itself to financially viable areas only. In brief, the Indian public sector is an omnibus sector, without a consistent, clear cut, ideological, economic or social framework.

Regarding the organisational aspects there cannot be any one form of organisation for the public sector as a whole. The organisational structure of an enterprise has to be evolved in the light of the objectives and the nature of the activities that it has to undertake. Thus, the nature of activity and the requirements of efficiency would have a bearing on the form. To a large extent these issues are technical ones; and many a time, the choices are limited. For instance, V.V. Ramanadhan and N.K. Nangea discuss Corporation *versus* Departmental form in road transport. The point made by them that the choice of form "must be determined by its organisational superiority" is valid. Similarly, Richard E. Hamilton has discussed the Damodar Valley Corporation, as an organisational form inspired by the Tennessee Valley Authority of the United States. M.G. Shah and H.K. Paranjape also survey the organisational forms of public enterprises in India.

Recruitment policies, training, motivation and morale of the workers is another important element in determining the level of efficiency in an enterprise. Ajit Banerjee discusses alternative techniques for recruitment and training of managerial personnel for public enterprises. He pleads for providing a sense of pride to the public sector managements. S.S. Patil examines the controversy around the 'committed', specialists and generalists. O.P. Minocha in his case study of the Hindustan Steel Limited provides an insight on various issues relating to employees. He examines employees' motivations for joining the undertaking and also discusses the problem of overstaffing and perceptions of employees in India's largest public sector enterprise. The case for workers' participation in management is examined by Dipankar Sarkar.

R.S. Arora in his review brings out the developments in the audit and accountability of public enterprises in India and Britain. One is struck by the fact that while the socio-economic contexts for public sector in Britain and India are so different, the trend of discussions and the concepts employed in India at the policy making levels, have been on the pattern set in Britain. It has also been seen that similar observations hold equally true in matters of most of the economic legislation in India. The Indian versions are, however, poor attempts at imitation. Having assessed the close dependency of under-developed countries, even in matters of styles of debate and content, one needs to investigate various factors which do not allow leaderships and civil servants in developing economies to think and plan on their own.

Public enterprises in India run under financial losses. Therefore, these are often described as white elephants and a drain on public exchequer. It is quite a favourite subject with private sector lobbies. Ques-

tions of profitability and accountability for business undertakings are closely linked with each other. For understanding the nature of the basic problem one has to have historical as well as an overall perspective of the development of public enterprises in India. The Industrial Policy Resolution of 1956 had identified certain industries and economic activities to be exclusively developed in the public sector. These industries: (*a*) required large investments, (*b*) had a long gestation period, with (*c*) expected low financial returns. Public sector, in general, was expected to provide the necessary industrial infrastructure and raw materials for processing and retail distribution to the private sector.

It is obvious that the Indian public sector was not initially expected to generate financial profits. In fact, it was openly argued that instead of 'profit maximisation' as the objective, the public sector enterprises should aim at maximisation of social gains. In the planned economy, the sector was conceived as an instrument to establish such production capacities in society that would otherwise not get established on the criterion of financial returns. Planning implies adoption of a system in which investment decisions are made in view of social gains and social considerations rather than in response to market demand. Such principles were well spelled out during the 'fifties' and the private sector press had hailed these objectives without reservation, or with minor ones. This context is now forgotten. The financial performance of the public enterprises has also to be seen with reference to the deliberate and conscious choice of pricing policies of the sector. Absence of an emphasis on the need to deploy the Indian public sector as an instrument for greater resource mobilisation is well known. The public sector, it was agrued, should not indulge in profiteering as this would have an adverse impact on the price level and hit consumers adversely. This was adopted as a general policy to be pursued by all public sector undertakings. As a result, even in sectors in which the public sector was catering to requirements of the affluent sections, the pricing policy adopted did not lead to surplus generation. In electric power supply, for instance, there is no price differential whether the power was used for lighting purposes or for household air conditioning. The end use and the capacity of the consumer to pay have never been factors taken note of in fixing electricity rates. In fact up till very recently, power for luxury use was made available at nearly half of the rates for household lighting. Power generation incidentally, has also continued to be at a much lower level than its demand. If one were to examine pricing policies of the Indian public enterprises one would discover a considerable element of subsidy to its users.

During the past few years it has been emphasised by top policy makers in government that public sector units should make profits; it is suggested that the future expansion of a unit would be linked to its

financial performance. The implications of such policy directives should be clear. Public sector units, invariably, enjoy a monopoly position. Once the public sector managements are directed to somehow show profits, the first, and probably the easiest, choice to be exercised, by the managements, would be in declaring an upward revision of the prices for their services and goods produced.

While one is not arguing that public sector should not make profits, it is obvious that there cannot be a general directive to all enterprises to work for profit maximisation. The approach would have to be selective. If profit maximisation is made an objective for the public sector too, where is the economic and social justification for establishment of the public sector in the Indian context? The basic rationale for the sector, one believes, lies in the sector being expanded in response to social necessities for the country as a whole instead of catering to the market demand—the character of which is bound to be a mirror reflection of the inequalities in the society.

The pattern of Indian economic development during the past three decades has led to a phenomenal growth in assets and economic power of a few private industrial empires. It is also seen that a good number of erstwhile foreign companies have diluted their equity and qualified for being treated at par with other Indian companies. In view of these developments, the capability of the private sector (Indian as well as the foreign) to undertake large investments has got considerably enhanced. Many of the limitations of the late 'fifties' and 'sixties' have disappeared. As a consequence of these developments, the private sector, particularly monopoly capital, is aspiring to enter economic activities which were hitherto earmarked for exclusive development by the public sector. A significant number of deviations from the list of public sector reserved industries and economic activities have already been made. But the thrust to enter new areas by the private sector is being pursued with considerable tact and vigour. On one side the performance of the public sector, in terms of financial results, has put the government in a defensive position; and on the other, limited resources for new investments have reduced the capacity of the government to expand the public sector. The Indian private sector with easy financial support from banks and other financial institutions and with options to involve foreign collaboration and direct loans from international agencies of the developed countries is able to establish its claims for a change in basic economic policies successfully.

Indian Public sector has witnessed three new trends during the seventies. *One*, public sector financial institutions at the State level have started taking direct responsibility to promote new industrial undertakings in collaboration with private sector. This is called the joint sector. The concept of 'joint sector' was proposed by the Dutt Commit-

tee in 1969. This new form was visualised in the context of large private corporations in which the public sector financial institutions already had substantial financial stake. The joint sector was expected to expand as a consequence of the exercise of the convertibility clause, by government and the financial institutions. The joint sector was argued in the light of the prevailing corporate reality. The joint sector was seen as an alternative to private monopolies. The form and purpose of the joint sector, as being practised, now is quite different. The financial institutions have found the new sector as a convenient instrument to promote private industrial development in the states. Industrial licences are obtained by one of the public sector undertakings, and then only attempts are made to locate private parties willing to implement the licence as a joint sector project.

Identification of the private party is followed by promotion of a new corporate body in which a minimum of 26 per cent shares is taken by the public sector, 25 per cent the private entrepreneur and the rest are issued to public through the share market. Such enterprises are, obviously, not the constituents of the public sector. The management of these rests with the private co-promoters. Since the enterprises in this sector are outside the public sector it is easier to obtain financial participation from the ICICI, IDBI, IFCI and other national and state level agencies. If these projects were in the public sector, a normal expectation would have been to seek funding from the exchequer. The private company promoter is expected to contribute 10-20 per cent only. There are instances where a majority of equity is held by public sector but the managerial rights are exercised by the private partner. In most cases since the majority equity is not held by government directly, there is no need to adhere to various norms and obligations which an ordinary public sector unit has to observe. For instance, questions on operations of the joint sector projects cannot be raised in parliament and there is no question of public audit or accountability.

The joint sector enjoys the prestige and advantages of a government enterprise and the immunity of a private sector enterprise. The new organisational form needs to be studied for its implications. Some feel that the joint sector is a mechanism to allocate costs to public, and the profits to private interests. The private entrepreneurs involved in joint sector projects are not always, the young, the professionals or the local ones only; nor is that the joint sector units are promoted only in high technology areas. It is not clear if the joint sector would stay in the system as a permanent feature of the economy. The limited available information, however, suggests that if a project reached the stage of economic viability, the public sector would withdraw itself and unload the equity shares to the private sector. On the other hand if the project

did not prove successful the liabilities would get transferred to the public sector partners.

The second trend of significance relates to nature of the trade union activities in some of the public sector enterprises. Public sector units enjoy near monopoly position in areas of their activities. Life and general insurance, banking, power and air transport are important constituents of the public sector in India. The employees in these enterprises are organised and are predominantly urban based. Because of their organised character the trade unions are able to exert a fairly high degree of pressure on government for increased wages and salaries and other facilities. As a consequence of successive organised trade union activity, wage levels at different levels have lost comparability with the wage levels prevailing in the non-organised sector in general and rural and agricultural sector in particular. In principle, one cannot have any objections to genuine trade union activity. And yet one cannot ignore the fact that emergence of substantive wage differentials, and other terms of employment, in public sector enterprises as compared to other sectors and services is likely to generate a variety of serious complications. It is well known that because of the comparatively better service conditions in public sector there is strong tendency on the part of senior civil servants to seek deputation to public enterprises. In fact, at higher levels there is a visible mobility of personnel from private sector too. In sum, various factors have contributed to make service in public enterprises a coveted one. One economic implication of these trends has in overall enhanced costs in the sector, which have added to the difficulties for making public enterprises financially viable. Genuine fear has been expressed in certain quarters that the present public sector has tended to become an enemy of its own future growth.

The third unfortunate and conspicuous trend is in matter of the nature of economic activities being assigned to the sector. One cannot find adequate justification for public sector expansion or entry into areas which have low social priority. During the Second and Third Plans public sector expansion was synonymous to high social priority; but it cannot be said of the sector today. State Governments and Central ministries are taking up projects which would only cater to demands of the elite of the Indian society: and in many such cases these activities cannot even be justified on the ground of private business logic. Associated with such developments is also a fact that very little public discussion is permitted when basic departures from nationally accepted policies are made. For instance, it has been a general policy to ban entry of foreign capital and technical collaborations in economic activities in which indigenous technology had already been developed. This principle holds true no more. If public sector joins hands with giant

private and foreign companies in non-priority areas it is bound to raise doubts about the very logic of the public sector in India.

It appears that the present trends have a host of serious implications, not only for the public sector but also for the overall pattern of future national development. This compilation has significance as the contributions bring out the perspective in which the Indian public sector was proposed and supported. The compilation also brings out nature of the problems investigated and the alternatives explored. One is struck by the number of scholars and the nature of information and data that public enterprises have always made available to individual scholars. Can this be said of the private sector? When public sector enterprises are studied and their results made public, it is natural that their internal shortcomings would come under the public eye. On the other hand, if the nature of practices in private sector do not get examined, all would appear to be well with it. In this context, one may also mention the fact that while all public sector reports are presented to Parliament and are available to public, so far not even a single report on monopoly and restrictive trade practices has been published. The MRTP Commission was established in 1969. Scholars would need to explore the reasons.

A good number of public sector enterprises have been in operation for more than a decade. It is time to ask: For whom is the sector performing? Alongwith financial performance one has to ask if some of the major public sector enterprises in India have not become institutions to provide subsidised services for the affluent minority of the country. What is the character of the Indian Public Sector? How far is it public? How could this be changed? These questions one hopes, would also attract attention of Indian scholars and civil servants in coming years.

S.K. Goyal

CONTENTS

The Role of Public Enterprises in the Indian Economy*

V.K.R.V. Rao

PUBLIC ENTERPRISES have been a significant part of the Indian economy even before the advent of independence. Thus, the book value of gross fixed assets owned by the central and state governments, together with the working capital in the enterprises concerned, amounted to about Rs. 875 crores at the end of 1947-48. By 1950-51, this had risen to over Rs. 1,200 crores, distributed mostly as under:

	(*Rs. crores*)
Railways	837
Irrigation works (including multi-purpose river valley projects)	230
Communications and broadcasting	53
Electricity undertakings	40
Industries	44
Civil Aviation	10
Ports	8
Central Tractor Organisation	5
TOTAL	1,236

In the same year, the value of productive capital assets in the private sector in organised industry, mining, plantations, transport and electricity undertakings was of the order of about Rs. 1,500 crores. Thus, even before we began our five year plans, the public sector was playing not a negligible role in Indian economy.

In this article, we are concerned with industrial and commercial enterprises. We, therefore, say nothing about the additions to public

*From *Indian Journal of Public Administration*, Vol. X, 1964, No. 3, pp. 412-26.

enterprise made by the nationalisation of the Imperial Bank of India and of life insurance business both of which were effected during the plan period. As far as organised industry and commerce were concerned, the public sector was playing a negligible role in 1950-51, the value of productive capital employed therein being only of the order of Rs. 44 crores. The First Plan saw an addition of Rs. 57 crores to the public sector in industry and commerce. The Second Plan marks the real commencement of the public sector in India in the industrial and commercial field. The addition that the second plan period saw to state capital in industry and commerce was of the order of Rs. 870 crores. The outlay targeted for the Third Plan was Rs. 1,520 crores; and according to newspaper reports, the corresponding figure for the fourth plan period is placed at Rs. 3,200 crores. If the Third Plan figures are realised and the Fourth Plan estimates prove true, then there would be at the end of the Fourth Plan period a public sector in organised industry and commerce which would have a capital base of no less than Rs. 5,691 crores as against which the value of productive capital in the private sector in the same field would only be Rs. 5,857 crores. In other words, within a period of 20 years from the inception of planning in this country, the public sector would be occupying a position in industry and commerce that would account for well-nigh half of the entire field as against a proportion of 2.9 per cent with which we began in 1950-51. When the composition of the public sector investment is taken into account, it would be seen that the public sector would occupy a commanding position as far as basic industries and capital goods industries are concerned. There can, therefore, be no doubt about the importance of the role of public enterprises in the Indian economy.

DISCONCENTRATION OF ECONOMIC POWER

This vast extension of public enterprises in Indian economy has not come about fortuitously. Behind it is planned development and behind this planned development there is a social and economic philosophy. This philosophy has been spelt out in the three plan reports issued so far as also in the Government's Industrial Policy Resolutions of 1948 and 1956. Broadly speaking, the economic objective behind this extension is to help in building up the economy by undertaking enterprises which are basic from the point of view of economic growth and which, nevertheless, either by virtue of the size of capital involved or other reasons were not likely to be taken up by the private sector. Thus, the First Plan document points out: "The scope and need for development are so great that it is best for the public sector to develop those industries in which private enterprise is unable or unwilling to put up the resources required and run the risks involved." The Second Plan document went a little further and stated: "The public sector has to

expand rapidly. It has not only to initiate developments which the private sector is either unwilling or unable to undertake; it has to play the dominant role in shaping the entire pattern of investments in the economy, whether it makes investments directly or whether these are made by the private sector." Elaborating the field which should be taken up by the public sector, the Second Plan document continues: "The use of modern technology requires large scale production and a unified control and allocation of resources in certain major lines of activity. These include exploitation of minerals and basic and capital goods industries which are major determinants of the rate of growth of the economy. The responsibility for new developments in these field must be undertaken in the main by the state and the existing units have also to fall in line with the emerging pattern."

There is also a major social objective underlying the philosophy behind this planned extension of the public sector. The acceptance by government of the goal of a socialist pattern of society and the Industrial Policy Resolution of 1956 which followed this acceptance emphasised the social considerations behind the extension of the public sector. Thus, the Industrial Policy Resolution of 1956 stated: "The adoption of the socialist pattern of society as a national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investments on a scale which only the state, in present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area." The Second Plan document also stressed the importance of using the public sector as an instrument for preventing concentration of economic power. Thus, it is stated in the document: "Public ownership, partial or complete, and public control or participation in management are specially required in those fields in which technological considerations tend towards concentration of economic power and wealth." The Third Plan document carried this argument further and made it more specific and categorical. Thus, it is stated in this document: "As a decisive instrument which the state can employ in preventing concentration of economic power and growth of monopolistic tendencies, the rapid expansion of the public sector serves a two-fold purpose. It helps to remove certain basic deficiencies in the economic structure and at the same time it reduces the scope for accumulation of wealth and large incomes in private hands.... As the relative share of the public sector increases, its role in economic growth will become even more strategic and the state will be in a still stronger position to determine the character and functioning of the economy as a whole." It will be seen, therefore, that behind the planned

extension of the public sector, there is an economic argument of speeding up growth and at the same time guiding the private sector in the same direction. Simultaneously, there is behind it the social argument of preventing concentration of wealth and income in private hands and giving the state a commanding position in determining the character and functioning of the economy as a whole in order that it may march towards the eventual establishment of a socialist society.

CATEGORISATION AND ROLE ENTRUSTED

The concrete operation of this policy was determined first by the Industrial Policy Resolution of 1948 and subsequently by the Industrial Policy Resolution of 1956. In terms of the first resolution, the principle of government ownership and control was accepted in regard to a segment of the economy comprising arms and ammunition, atomic energy and railways. This resolution also stated that in regard to certain key industries like coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph and wireless apparatus, etc., the state is to be responsible for further expansion except to the extent it considers the cooperation of private enterprise necessary for the purpose. In the rest of the industrial field, the initiative for development and the responsibility for management was to rest on private enterprise. Government, however, reserved the right to acquire any undertaking in the public interest and to intervene in cases where the conduct of industry under private enterprise is not satisfactory. The Industrial Policy Resolution of 1956 proceeds further and classifies industries into three categories*, having regard to the part which the state would play in each of them. The first category shown in schedule 'A' consists of industries the future development of which will be the exclusive responsibility of the state. In the second category shown in schedule 'B' are industries which will be progressively state-owned and in which therefore the state will generally take the initiative for establishing new undertakings but in which private enterprise will also be expected to supplement the effort of the state. The third category comprises all the remaining industries, the further development of which will, in general, be left to the initiative and enterprise of the private sector.

It must be pointed out that the Resolutions themselves as also the plan documents made it clear that the role of the public sector was not to be interpreted rigidly in terms of these categories. Thus, even in the industries listed in schedule 'A', the expansion of existing private-owned units was not precluded, while the state was also free to secure the cooperation of private enterprise in the establishment of new units

*The industries listed in Schedules 'A' and 'B' of this Resolution are given in Appendix 'A' to this article.

when the national interest so required. Similarly, while in schedule 'B' the state is expected to enter progressively and enlarge its operation, private enterprise was also to have the opportunity to develop either on its own or with state participation. In the case of industries which constituted the third category and which were in general, left to the initiative and enterprise of the private sector, it was open to the state to start any industry if it found it expedient to do so. The Second Plan document stated: "The prime consideration determining state policy covering the whole industrial field is promotion of rapid development in keeping with the overall objectives defined. The public sector has to grow—and rapidly—and the private sector has to conform to the requirements of the plan. There is necessarily to be 'a great deal of dovetailing' between the two sectors and it is recognised that the private sector has to be given the opportunity and facilities to function effectively within the field allotted to it. It is within the framework of this new industrial policy resolution that rapid industrialisation has to be carried through in the coming years." This emphasis on taking a coordinated view of the private and public sector industries and the attitude of flexibility in the operation of the industrial policy resolution was re-emphasised in the Third Plan documents. I quote:

> The expansion of industry will continue to be governed by the Industrial Policy Resolution of April, 1956. As in the Second Plan the roles of the public and private sectors are conceived of as supplementary and complementary to one another. For example, in the case of nitrogenous fertilizers where the public sector has already assumed a dominant role, it is envisaged that during the Third Plan the private sector will enter this field in a bigger way than in the past and supplement the efforts of the public sector. In the case of pig iron, the policy has been relaxed to allow the establishment of plants in the private sector with a maximum capacity of 100,000 tons per year as compared to units of 15,000 tons permitted so far. Programmes for the manufacture of dyestuffs, plastics and drugs in the private sector will be largely complementary to the programme for the manufacture of primary aromatic compounds as by-products at the steel works and of organic intermediates to be undertaken in the public sector. Similarly, whereas the manufacture of bulk drugs will be organised in a big way in the public sector, the further processing of bulk drugs will also be undertaken in the private sector.

The latest position in regard to the public sector in industrial and commercial undertakings is available for the year 1962-63. At the

end of this year, the total investment in public enterprises in industry and commerce totalled Rs. 1,372 crores. This total investment was distributed as follows:

	1962-63	
	Amount (Rs. in crores)	*Percentage*
(*i*) Undertakings under construction	274.8	20.03
(*ii*) Running Concerns—Hindustan Steel Ltd.	724.1	52.78
(*iii*) Running Concerns—Other than Hindustan Steel Ltd.	313.7	22.86
(*iv*) Promotional and Developmental Undertakings	59.4	4.33
TOTAL	1372.0	100.00

It is important to make this classification of four categories as formulated in the foregoing table, if one wants to take an objective and intelligent view of the profitability of public enterprises in India.

The first category, which accounts for a total capital of Rs. 274.8 crores, obviously cannot be expected to give any yield as it relates to undertakings which are still under construction. Given below is a list of these undertakings:

		Year of commencement
1.	Heavy Electricals (India) Ltd.	1956
2.	Heavy Engineering Corporation Ltd.	1958
3.	Hindustan Organic Chemicals Ltd.	1960
4.	Hindustan Photo Films Manufacturing Co. Ltd.	1960
5.	Hindustan Teleprinters Ltd.	1960
6.	Indian Drugs and Pharmaceuticals Ltd.	1961
7.	Indian Refineries Ltd.	1958
8.	National Minerals Development Corporation Ltd.	1958
9.	Neyveli Lignite Corporation Ltd.	1956
10.	Pyrites & Chemicals Development Co. Ltd.	1960

The investment on these undertakings stood at Rs. 275 crores at the end of the year and eventually is expected to reach about Rs. 650 crores, excluding about Rs. 100 crores on township planned so far in connection with these projects.

The second category, *viz.*, the Hindustan Steel Ltd., is a class by itself, partly because the investment made therein (Rs. 724 crores) represents about 53 per cent of the overall investment in organised industry and commerce and partly because alongside with the operation of the one million tonne stage in the three plants, huge expansion programmes and the establishment of alloy steels plant (estimated to cost Rs. 400 crores) are in the process of implementation. Obviously, therefore, the results of the working of this undertaking cannot be merged with those of the concerns included in category (*iii*) which are in full and commercial operation. The cumulative loss sustained by the Hindustan Steel Ltd. as the close of the year 1962-63 amounted to Rs. 61.6 crores. When considering this figure, it must be remembered that it is arrived at after making provision for full payment of Rs. 17.5 crores due to government in 1962-63 on capital loans advanced to the concern. The gross surplus before providing for depreciation and interest due to government rose from a figure Rs. 19.5 crores in 1961-62 to Rs. 23.9 crores in 1962-63. There can be no doubt that if this trend continues, it will not be long before Hindustan Steel Ltd. will be able to have a gross surplus that would meet both depreciation and interest charges, after which it will not be long before it begins to give a net surplus and therefore a dividend on its equity capital.

In considering the time that Hindustan Steel Ltd. are taking to become profitable in the commercial sense, we must remember the long period of gestation involved as also its continuing expansion programme. Above all, if we want to be objective, we must compare the time taken by the Tata Iron & Steel Company to start giving dividends on its equity capital. If that is done, it will be seen that the record of the public sector in the iron and steel industry is by no means unfavourable as compared to the performances of the private sector in the same field.

It is the third category, namely, the running concerns other than the Hindustan Steel Ltd. which can be regarded as public enterprises in the industrial and commercial field which either have come of age or are more or less reaching that position. These concerns number 29 and accounted for a total investment of Rs. 313.7 crores. By 1962-63 these concerns had accumulated a reserve of Rs. 43 crores, are regularly paying interest on the loans received from government, have made a tax provision for Rs. 4.7 crores and have declared a dividend of 7.6 per cent on their paid-up capital. Their net profit as percentage of net worth amounted to 6.7 per cent while their gross profit as percentage of capital employed amounted to 7.8 per cent. The rapidity of the progress which has been made during 1962-63 as compared to 1961-62 can be seen from the fact that gross profits during 1962-63 amounted to Rs. 24.7 crores as against a corresponding figure of Rs. 14.7 crores in

the previous year. Similarly, the net profit as percentage of paid-up capital went up from 4.5 to 7.6 per cent, net profit on net worth from 4.1 to 6.7 per cent and gross profit as percentage of capital employed from 5.2 to 7.8 per cent.

No one who takes an objective view can fail to ignore this trend and the rising movement towards profitability of public enterprises that it shows. Even in absolute terms, if we compare this performance with that of the private sector on the basis of a Reserve Bank Survey of 1,333 selected companies with total paid-up capital of Rs. 721.4 crores, a net worth of Rs. 1,217 crores and gross capital of Rs. 2,627 crores, we find that the figures of gross profits as percentage of total capital employed was 10.1, while net profits as percentage of net worth was 9 per cent. The difference between the rates of gross profits as percentage of total capital employed and net profits as percentage of net worth are not significantly higher than those in the public Sector. Such difference, as there is, can be more than explained by the long period during which the concerns in the private sector have been operating, as also the more profitable nature of the commodities they are engaged in producing. It is also interesting to note that wheres gross profit as percentage of total capital employed in running concerns rose only marginally from 10 per cent to 10.1 per cent between 1961-62 and 1962-63, the corresponding figures for the running concerns in the public sector show a rise from 5.2 to 7.8 per cent. Similarly, while net profits as percentage of net worth have actually declined in the case of private sector from 10 per cent to 9 per cent during these two years, the corresponding figures for the public sector enterprises show a rise from 4.1 to 6.7 per cent. In the face of these facts, it is really surprising to hear so much uninformed but nevertheless curiously emphatic assertions made by interested parties about the non-profitability of public sector enterprises and their allegedly significantly inferior position in economic terms as compared to private enterprises.

Appendix B (i) and (ii) to this article gives relevant figures regarding the running concerns in the public sector and the profitability ratios in the private sector as estimated by the Reserve Bank Survey of 1,333 selected joint stock companies in the private sector.

As regards the fourth category, namely, promotional and developmental undertakings, it does not, by definition, lend itself to the criteria of profitability as in the case of the other public sector undertakings in the industrial and commercial field. The investment in these undertakings was Rs. 59.4 crores at the end of 1962-63 and they numbered 9, as listed below:

1. Central Warehousing Corporation.
2. Export Risks Insurance Corporation Ltd.

(Renamed Export Credit and Guarantee Corporation Ltd.)
3. Handicrafts and Handloom Exports Corporation of India Ltd.
4. National Industrial Development Corporation Ltd.
5. National Research Development Corporation of India.
6. Oil and Natual Gas Commission.
7. National Small Industries Corporation Ltd.
8. Rehabilitation Housing Corporation Ltd.
9. Rehabilitation Industries Corporation Ltd.

Even in their case, it is interesting to note that their income and expenditure are practically in balance, while a reserve of Rs. 107 lakhs have been built up since their inception.

MANAGEMENT AND ACCOUNTABILITY OF THE PUBLIC SECTOR

While it is true that the record of the public sector does not compare unfavourable with that in the private sector, there are certain problems facing the public sector enterprises which have to be solved if they are effectively to play the role envisaged for them in the planned development of our economy towards the establishment of a socialist society. The first point to emphasise, though perhaps the need for reiterating this emphasis is much less today than it was in 1956 when I first wrote on the subject, is that contrary to some popular notions on the subject, profits have an important place in a socialist society. The difference between the economic price and the social price would be what may be called planned profit, and this would largely correspond to the excise duties and sales tax and other indirect taxes that are imposed in a capitalist society, these planned profits being no more than a way of mobilising resources and making them available to the community for purposes both of investment and maintenance expenditure.

Profits also have another important role to play insofar as they relate to the economic price itself. The economic price fixed at any particular moment of time is obviously based on the capital, technique, and productivity of the given base period when this price is fixed; any improvement in productivity is bound to lead to a decrease in the cost of production, and, in turn, this would lead to the emergence of a surpuls within the economic price itself and that would be a surpuls which will represent a measure of the nation's increase in productivity. This surpuls would not be the result of the policies laid down at national level as in the case of difference between the economic price and the social price. On the contrary, it would represent the result of the motivations and efforts of a large number of persons engaged in productive activity. Hence the importance of arranging for proper incentives to stimulate the creation of this kind of surplus. That is the

reason why in socialist societies, now-a-days, individual enterprises are permitted to retain a larger share of such surpulses as they may create by an increase in productivity, this larger share to be used by them partly for increasing individual incomes of those engaged in the enterprises and partly for giving an opportunity to the enterprises in question to build up the financial resources needed for following their own independent investment policies.

The second important problem that faces the public sector is the question of management. There is no doubt that management both at the top level as well as middle levels forms the most important instrument for the development of the economy. The growth of public enterprises cannot be determined merely by resolutions or by centrally formulated rules and regulations or even by merely stepping up the quantum of public investment. A great deal has to be left to the discretion, intelligence, imagination, confidence and initiative of the person or persons who are in charge of decision-making in individual enterprises. I know that this problem of reconciling managerial initiative and autonomy with ministerial accountability to Parliament is a difficult and complex problem to which we have not yet succeeded in finding a solution. It is perhaps inevitable that managers in the public sector will always have some headaches as compared to their compeers in the private sector because the former are answerable to ministers who in turn are responsible to Parliament, to the press and to public opinion. It is, therefore, inevitable that some handicaps and extra loads will fall on the shoulders of managers of public enterprises. At the same time, we cannot let the bugbear of public accountability to be so operated as to kill enthusiasm and initiative in individual public enterprises and prevent them from growing to the levels of output and efficiency that they must rise to, if they are to play a significant role in the building of the Indian economy. Even under the existing framework, I believe, there are a great number of rules and procedures which prevent individual managements from exercising their full decision-making powers. Surely, it should be possible to amend and modify, if not eliminate, some of these economically unjustified and psychological irritating rules and procedures without affecting the basic rationale behind public accountability.

It is, I think, also necessary to take a fresh and comprehensive view of this problem of reconciliation between central control necessitated by public accountability and individual autonomy necessitated by the needs of growth and increasing profitability. As I have already stated, public sector enterprises in industry and commerce would by the end of the Fourth Plan be responsible for investment to the tune of more than Rs. 5,691 crores and it may well be that even this vast figure might find itself more than doubled by the time we come to the end of the

Fifth Plan. Public enterprises are thus going to constitute a most significant sector of the Indian economy and will indeed occupy a commanding position as far as organised industry and commerce are concerned. It is, therefore, absolutely essential that considerations of efficiency, profitability, and growth must all be given their proper place in addition to the factor of public accountability, which of course cannot be ignored in a democratic society like ours. I would, therefore, plead most earnestly for the gathering together of all experiences in this field; and for doing this, it is on the Soviet Union rather on the western countries that we will have to fall back upon. After gathering and analysing all available material in regard to the ways and means by which this problem of reconciliation is attempted to be solved in the Soviet Union and also the manner in which individual giant concerns in the western capitalist countries have attempted to solve this problem of reconciliation between their centralised control and the growth and profitability of their branches, subsidiaries, and allied units, we should then of course have to do our own thinking in the context of Indian conditions and evolve a policy that will attempt reconciliation to the maximum possible extent between public accountability and individual enterprise initative in the public sector in industry and commerce in this country. I believe that this is a must which cannot be ignored if we want public enterprises in India to play the role that has been envisaged for them in our policy resolutions and in our plan documents.

PHILOSOPHY OF DEMOCRATIC SOCIALISM

Finally, I would like to re-emphasise the social considerations and the philosophy underlying the extension we are envisaging of public enterprises in India. While purely economic considerations are most important, public enterprises are not just business concerns in the sense in which it is understood by private enterprises. There is a certain philosophy behind the extension of our public sector. This philosophy is, as is well known, the philosophy of democratic socialism. We are wanting to use the public sector as a major instrument for bringing into existence and operating a democratic socialist society in our country. In fact, the two major instruments envisaged for establishing a socialist society in our country, are, on the one hand, a very large increase in the facilities in social services and education and equalisation of opportunities and on the other hand, a very large extension of the public sector. The strategy which we employ for bringing into existence a socialist democracy through constitutional methods and consistently with preserving the freedoms associated with political democracy is through the extension of the public sector.

It is high time, therefore, that those concerned with both the esta-

blishment and management of public enterprises in this country should consider this aspect of the matter. Apart from the need for public sector enterprises observing all the labour laws and functioning as model employers to the extent that our resources and the current stage in our economic development permit, it is most important that the worker in the public sector enterprises should feel much more identified with his work than one who works in private sector enterprises. It is essential that this identification and sense of participation is established between workers, management, and government in our public sector enterprises. If public sector enterprises are to fulfil the philosophy underlying their establishment, workers in these enterprises must be more efficient than in the private sector and they must be much more identified with the management than in the private sector. In a way, both these desiderata are interlinked. It is high time that we set about examining in detail how to establish a sense of identification and participation between workers, management and government in the public sector. Speeches and exhortations will not bring about the desired results. Deliberately selected and intelligent techniques have to be employed, covering the entire field of incentives, psychological stimulii, built-in-institutions for cooperation and participation, etc.

CONCLUSION

To conclude, public sector enterprises have come to stay in India. They are also growing in size and stature and increasing their profitability. They are certainly going to become more and more important not only in the growth and functioning of the Indian economy but also in shaping the future of the Indian society. I regard public enterprises as the army of the constitutional advance of this country into a socialist democracy. To my mind they constitute the pioneers. They are the sappers and miners of our socialist army. It is they who can help government in concrete terms in taking the country forward to the establishment of democratic socialism. If my view is accepted, then I would urge it is high time we started examining the subject of public enterprises in the Indian economy from this angle, initiate studies, collect comparative data, make enquiries, garner relevant experience from abroad, and finally chalk out a concrete and detailed plan of policy and operation for public sector enterprises that will help them to fulfil the social and economic philosophy behind their establishment and expansion.

Appendix A

INDUSTRIES LISTED IN SCHEDULES 'A' AND 'B' OF THE INDUSTRIAL POLICY RESOLUTION, 1956

SCHEDULE A

1. Arms and ammunition and allied items of defence equipment.
2. Atomic energy.
3. Iron and steel.
4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
8. Mineral oils.
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
10. Mining and processing of copper, lead, zinc, tin, molydbenum and wolfram.
11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
12. Aircraft.
13. Air transport.
14. Railway transport.
15. Shipbuilding.
16. Telephones and telephone cables, telegraphs and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

SCHEDULE B

1. All other minerals except 'minor minerals' as defined in Section 3 of the Minerals Concession Rules, 1949.
2. Aluminium and other non-ferrous metals not included in Schedule 'A'.
3. Machine tools.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilisers.
8. Synthetic rubber.
9. Carbonisation of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport.

Appendix B(i)

PROFITABILITY OF RUNNING CONCERNS IN THE PUBLIC SECTOR

	Gross profits as percentage of capital employed		*Net profits as percentage of net worth*	
	1961-62	*1962-63*	*1961-62*	*1962-63*
(1)	(2)	(3)	(4)	(5)
FOR ALL UNDERTAKINGS	5.2	7.8	4.1	6.7
Engineering				
Hindustan Machine Tools Ltd.	14.0	21.4	17.7	17.9
Hindustan Cables Ltd.	8.9	12.9	6.9	10.6
Indian Telephone Industries Ltd.	10.7	13.8	5.3	8.0
Bharat Electronics Ltd.	4.7	7.2	5.0	8.4
National Instruments Ltd.	2.0	11.1	1.4	4.8
Hindustan Aircraft Ltd.	3.7	5.2	3.8	4.8
Praga Tools Corporation Ltd.	L	1.9	L	0.2
Nahan Foundry Ltd.	3.5	L	1.0	L
Chemicals				
Hindustan Antibiotics Ltd.	27.8	22.5	13.2	11.0
Hindustan Insecticides Ltd.	15.6	23.2	9.2	8.9
Hindustan Salts Ltd.	9.9	9.9	7.3	7.3
Fertiliser Corporation of India Ltd.	1.2	3.7	0.3	3.1
Mining and Minerals				
Indian Rare Earths Ltd.	4.5	11.2	4.4	10.3
Travancore Minerals Ltd.	18.8	24.2	9.1	4.8
National Coal Dev. Copn. Ltd.	0.8	3.3	L	3.3
Building and Repairing Ships				
Gardenreach Workshops Ltd.	3.4	7.0	2.4	7.1
Mazagon Dock Ltd.	7.9	11.8	10.2	6.7
Hindustan Shipyard Ltd.	0.5	0.1	0.1	0.1
Aviation and Shipping				
Moghul Line Ltd.	17.9	17.5	5.3	8.4
Air India	3.0	8.3	4.4	14.4

(Continued)

(1)	(2)	(3)	(4)	(5)
Indian Airlines Corpn.	0.6	3.6	0.9	5.5
Shipping Corpn. of India Ltd.	5.3	6.3	4.1	5.0
Miscellaneous				
State Trading Corpn. of India Ltd.	34.3	42.9	22.7	13.9
Indian Oil Co. Ltd.	L	11.8	L	16.5
National Projects Construction Corporation Ltd.	13.4	8.2	5.4	13.0
National Newsprint & Paper Mills Ltd.	9.0	10.0	10.1	10.6
Ashoka Hotels Ltd.	14.8	17.5	16.3	7.8
Hindustan Housing Factory Ltd.	14.2	6.2	9.9	4.2
National Buildings Construction Corpn. Ltd.	L	L	L	L

'Gross profit' represents the excess of income over expenditure after providing for depreciation but before providing for interest, taxes and allocations to reserves.

'Net worth' represents the paid-up capital plus reserves less intangible assets.

'Capital employed' represents gross block less, depreciation plus working capital.

L=Loss.

Appendix B(ii)

PROFITABILITY OF RUNNING CONCERNS IN THE PRIVATE SECTORS

Industry	*No. of Cos.*	*Gross profits as percentage of total capital employed*		*Profits after tax as percentage of net worth*	
		1961-62	*1962-63*	*1961-62*	*1962-63*
Tea plantations	147	9.4	10.7	6.0	5.9
Coffee plantations	15	6.4	12.2	4.4	7.5
Rubber plantations	21	14.0	13.3	7.3	8.0
Coal mining	47	8.3	9.5	5.7	8.1
Edible, vegetable and hydro-genated oils	16	7.4	7.3	6.4	7.9
Sugar	79	7.4	7.6	7.4	3.5
Tobacco	5	11.7	14.2	6.9	7.7
Cotton textiles	262	12.9	7.9	13.1	5.8
Jute textiles	58	3.4	16.4	0.2	19.5
Silk and rayon textiles	10	13.2	9.7	17.1	11.1
Woollen textiles	7	20.1	17.5	19.9	17.4
Iron and steel	2	8.0	9.6	10.2	12.8
Non-ferrous metals	7	10.9	10.0	9.0	9.9
Transport equipment	32	10.1	10.6	11.0	9.5
Electrical machinery, apparatus and appliances, etc.	45	11.6	14.1	13.4	11.5
Machinery (other than transport and electrical)	52	10.4	11.0	12.8	10.7
Foundries and engineering workshops	25	9.3	10.3	8.7	9.3
Ferrous/non-ferrous metal products	24	11.1	11.2	9.9	9.8
Basic industrial chemicals	35	12.3	10.5	13.1	11.4
Medicines and pharmaceutical preparations	33	13.5	13.7	15.9	12.0
Other chemical products	21	11.2	13.4	10.3	9.8
Matches	2	16.2	17.6	11.7	13.4
Mineral oils	3	14.1	14.3	10.8	7.1
Cement	15	8.7	11.4	7.9	9.4
Paper and paper products	21	8.4	8.3	8.0	7.1
Electricity generation and supply	32	8.0	7.6	8.3	7.1
Trading	72	9.2	8.7	10.4	8.6
Shipping	14	0.8	4.9	1.9	3.0
Total (including others)	1,333	10.0	10.1	10.0	9.0

Evolving Pattern in the Organisation and Administration of Public Enterprises*

H.K. Paranjape

THE GOVERNMENT of India inherited a public sector of significant magnitude at the time of Independence. The railways the posts and telegraphs (including the telephone systems), the all India radio, the Hindustan Aircraft and a number of ordnance factories were already owned and managed by the Government of India in 1947. As a result of the policies adopted by the Government of India in the second world war period, projects for the production of locomotives, telephones and fertilisers had been taken up and some progress had been made by 1947 regarding their execution.

As a result of the increased emphasis on economic development after independence and the acceptance of the idea of direct state participation in the development process, a number of new projects in the irrigation, power, public utilities and manufacturing fields were taken up by government in the period immediately after Independence. This process was further accentuated with the setting up of the planning Commission and formulation of the First Five Year Plan. The adoption by government in 1954 of "a socialistic pattern of society" as the objective of its economic policy, and the increased emphasis on industrialisation in the Second Five Year Plan resulted in an even larger number of projects for developing new industries being established in the public sector. Thus, public sector units have been established on an increasing scale in industries like steel, heavy machine building, metallurgy, non-ferrous metals, coal mines, telephones, cables and teleprinters, fertilisers, heavy electricals, chemicals, drugs and pharmaceuticals, insecticides, electronics and similar other new and basic industries. The government also took over some private sector units which were

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vital for the country's economic development but which could not progress sufficiently under private auspices. Such industries included shipbuilding and air transport. Government also took over some important financial institutions for the purpose of more effectively pursuing its economic policy, the most important amongst these being the Reserve Bank of India, the Imperial Bank of India and life insurance companies. It also set up a number of financial institutions for providing development finance to different sectors of the economy a state trading organisation (the State Trading Corporation) for the purpose mainly of carrying on trade with communist countries and a Shipping Corporation for the purpose of increasing the tonnage for carrying India's ocean borne trade.

For effectively participating in the vast construction activities that were being undertaken in the country as a result of the development plans, two construction organisations—the National Projects Construction Corporation and the National Buildings Construction Corporation—were also set up. As a result of all these developments, enterprises owned and controlled by the Government of India have come to constitute a large and significant part of the national economy.

FORM OF ORGANISATION

In the years immediately after Independence, there seemed to be a growing a cceptance of the 'public corporation' as the appropriate form of organisation for public sector undertakings. The Reserve Bank, the Damodar Valley Corporation, the Industrial Finance Corporation and the Air Corporations are examples of the policy in this period. However, even at that time, there was no inclination to establish corporations for managing concerns which were already working as departments of government. The Indian Railway Enquiry Committee (1974) had suggested that the question of establishing a public corporation for the management of the railways should be taken up after a few years; but the government was not very much inclined to do so. The same was true about the All India Radio, the Posts and Telegraphs and the defence production units. It was felt that where departmental organisations had been functioning for long, it was not necessary to convert their form to a corporate one. At the most, a special departmental setup may be arranged to facilitate their smooth functioning. The Railway Board was already a separate organisation for managing the railways with almost full powers of management. Similar organisations were set up later for the management of the P & T and the defence production units. No changeover to the corporate pattern was considered necessary.

As the government began to take up projects in the mining and manufacturing field, there were some misgivings about whether the

'public corporation' was the most suitable form of organisation for these. It was felt that with the large number of units that would be set up, it would be difficult to find parliamentary time to pass the necessary legislation. Moreover, a statutory corporation would not be a flexible enough form of organisation when the government was entering this field newly and where many changes may be found to be necessary as experience was gained. The public corporation form had been adopted for public utilities and major financial institutions, especially where some degree of monopoly was inevitable. But it was felt that this was not necessary in the case of mining and manufacturing units. The troublesome problems that arose in the case of the Damodar Valley Corporation and, to some extent, the Industrial Finance Corporation[1] might also have influenced government's thinking. It is notable that since 1951-52 the form of the statutory corporation has been adopted only in a few of the new public undertakings, *viz.*, the State Bank of India, the Life Insurance Corporation and the Central Warehousing Corporation.

The company form of organisation was already in use due to historical reasons in the case of a few state undertakings like Hindustan Aircraft. As government began to think of a suitable form of organisation for the new and rapidly expanding undertakings in the mining and manufacturing fields, this form of organisation seems to have appealed to the policy-makers for a number of reasons. The form was already well-known, it had been in existence in the private sector for long, its legal terminology, etc., was already well-defined and it was not necessary to build up a new system which could lead to controversies and possibly various legal difficulties. Moreover, with government as the sole or predominant shareholder, the form offered sufficient flexibility for bringing about any changes in organisation that might be necessary as experience was gained. The possibility of a conflict between the top management and the government which, as the D.V.C.'s experience indicated, could be quite significant and embarrassing, could be minimised in the company form. Where partnership with private business concerns, Indian or foreign, was found to be necessary, this could be arranged and also when necessary modified more conveniently in the company form. For all these reasons, the government seems to have decided to adopt the company form of organisation for the bulk of the newly set up undertakings. Sindri Fertilisers and Indian Telephone Industries were the earliest to be set up under this form of organisation and the number of enterprises set up under government-owned companies has been rapidly increasing since then. Thus by the end of 1962, while the

[1]See Reports of the Damodar Valley Corporation Enquiry Committee (1952-53(and the Industrial Finance Corporation Enquiry Committee (1952).

number of departmental undertakings had remained constant at four (except that the number and complexity of defence production units had increased) and there were only eight statutory corporations, all in the finance and public utilities field, the number of companies exclusively or principally owned and managed by the Government of India had increased beyond 50.

The company form of organisation was criticised on various grounds by Members of Parliament, by the Estimates Committee and by the Comptroller and Auditor-General. The last authority even went to the extent of calling this "a fraud on the constitution". In addition to the doctrinaire approach that the 'public corporation' was the only proper form of organising state undertakings, the main point of this criticism was that there was not enough accountability to parliament of enterprises organised in this way. There was some truth in this criticism and a special provision was included in the revised Campanies Act (1956) to take care of this problem. As a result of this, this form of organisation is no longer subjected to much criticism and it seems now to be generally accepted that it serves the purpose well enough. The government's own view on this subject was recently stated as follows: "Government consider that the form of management of the undertakings should be determined by the requirements of each case. Accordingly, from the point of view of flexibility of operations, the company form of management would be preferable. In some instances, it would be necessary to form statutory corporations while in a few others, for various reasons, it would be desirable to run the undertakings as departmental organisations".[2]

PATTERNS OF OWNERSHIP

In the large majority of cases, the Government of India is the sole owner of the enterprises that have been set up under its auspices. There are a few cases, however, where other parties have been taken as partners.

In some cases, some state governments are partners in the enterprises. The most significant example of such a partnership is the DVC. Even though under the DVC. Act the Government of India had the main controlling authority and responsibility for the DVC, the governments of West Bengal and Bihar were made partners of the Government of India in this undertaking. This was done because it was felt that as the developments to be carried out by the DVC were in the regions covered by these two states, they should be associated with this project.

[2]Government of India, Ministry of Commerce and Industry: *Decisions of the Government of India on the Recommendations Contained in the Report of the Krishna Menon Committee and other Reports and Studies on the Running of Public Sector Undertakings*, New Delhi, 1961.

In practice, however, this association seems to have proved to be a disadvantage in the unified management and control of the DVC. In the case of a few government companies, some state governments have been associated as minority shareholders. This is sometimes due to purely historical reasons—as in Hindustan Aircraft where the Government of Mysore was a partner in the undertaking from the time of its inception as a private business venture, or in Singareni Colleries and Praga Tools where the enterprises were originally state government concerns but could not develop without large scale financial participation by the Government of India. A few other cases however indicate certain possibilities which may be portents of future developments.

Till recently, the allotment of shares to the Government of Mysore in the Indian Telephone Industries, whose works are situated in that state, could be treated as a decision taken at a time when the policy implications of such a decision were not clearly thought out. Nothing of this kind has been done in the case of other major public sector projects. In 1956, however, in the case of Travancore Minerals Ltd., the State Governments of Kerala and Madras have been made partners and these two governments together hold 50 per cent of the share capital. There has been some public discussion about whether state governments will not press for the right to participate in the share capital of Central Government undertakings situated in their territories. If this happens, it can give rise to a host of problems regarding the management and efficient conduct of these undertakings. Even now considerable pressure is reported to be put by state governments for preference in employment for their people in the central undertakings situated in their territories. Such pressures may increase and may be more effective if state governments can become partners and therefore enjoy guaranteed representation on the board of directors. Moreover, when the works of an undertaking are situated in more than one state, as is increasingly happening in the case of major undertakings, all the states concerned will have to be accepted as partners and unified control and efficient management will suffer.

There are also some cases where private business concerns are accepted as partners in state undertakings. In some financial concerns, it is considered necessary to have certain private concerns as partners because the nature of the activity of the undertaking is such that it can be more effectively carried out under this system. When a financial concern serves both the public and the private sector, or especially the latter, it is thought worthwile to have representation of that sector on the managing board through such a partnership. Thus the share capital of the Industrial Finance Corporation, the State Bank of India and its subsidiaries and bodies like the Refinance Corporation for Industry has

been permitted to be partially contributed by private shareholders, institutional or individual.

In other cases, private parties continue as shareholders because of the fact that the project was originally undertaken in the private sector and the state had to come in because the private parties could not find enough capital to go on with the project. Hindustan Shipyard was one example of this (though later on, by mutual agreement, the government took over the shares of the private partner), others in this category being the National Newsprint and Paper Mills (where a state government was also one of the original sponsors and continues as a minority shareholder) and the Ashoka Hotel.

The third type in this category is represented by the Indian Telephone Industries. The foreign firm which collaborated in the setting up of this project was permitted to hold a small proportion of shares in the concern, the idea being that the firm would feel more interested in the success of the project if it was made a partner in the concern. Similarly, the foreign group which collaborated in the setting up of the Rourkela Steel Plant was also originally made a minority partner in the concern. But later on it was decided to terminate this arrangement. The balance of advantage did not lie in making the foreign firm a partner in all cases of collaboration and it would have been invidious to permit such an arrangement in some cases and not in others. Curiously enough, in the case of Hindustan Organic Chemicals Ltd., a government company registered in 1960, this idea seems to have been revived and, under the collaboration agreement, a small part of the share capital is being allocated to the foreign collaborating group in lieu of their fees for technical assistance, etc.

Another development in the pattern of ownership in state undertakings is the establishment of concerns which are subsidiaries of state undertakings. This pattern is to be found especially in respect of financial unertakings. The Reserve Bank, which is fully state-owned, holds majority shares in the State Bank of India which in turn holds majority shares in eight subsidiary banks. The Government of India, the Reserve Bank, the State Bank and the Life Insurance Corporation together hold a large part of the share capital of the Refinance Corporation for Industry. As a matter of fact, there was some fear in private business circles that the government's ownership of the Life Insurance Corporation, the largest single investor in equity capital in the country, would be used for backdoor nationalization. The government, however, seems to have decided not to use the L.I.C.'s investments for the purpose of obtaining control over private sector undertakings.

The idea of permitting a part of the share capital in state undertakings to be held by the public seems to have received some support in parliamentary and government circles a few years ago. A study group

set up by the Planning Commission was reported to have recommended that 25 per cent of the shares of a few government concerns, already well established had not engaged in monopolistic or semi-monopolistic fields, should be thrown open for public subscription. The main motive underlying the recommendation seems to have been to associate the general public as partners with the government in the management of these concerns, "in the bearing of risks and uncertainties and in the sharing of the toils and travails connected with expansion and development". However, the arguments that this effect is not likely to be of any significant character and that there are significant dangers involved in such a policy for unified control and management of the concerns seem to have prevailed and no such experiment has been tried by government.[3]

STRUCTURE OF THE PUBLIC SECTOR

In public sector undertakings, the controlling ministry is at the apex and the operational unit—the individual plant or the individual mine—at the bottom. Whether there are any intermediary organisations depends upon the nature of the undertaking and the overall policy of government about organisation.

The distribution of public undertakings amongst different ministries has to some extent been influenced by historical reasons. The Chittaranjan Locomotive Works, for example, was organised to meet the requirements of the Railways and was therefore made a part of the railway organisation. The telephone factory was organised for meeting the needs of the Posts and Telegaraphs Department and, therefore, it was placed under the Department of Communications which is in overall charge of the Posts and Telegraphs. Gradually the allotment of enterprises to different ministries came to be related to the overall functions of a ministry. All financial undertakings were put under the Ministry of Finance, the Damodar Valley Corporation and the National Projects, Construction Corporation were put under the Ministry of Irrigation and Power and most of the new manufacturing enterprises under the ministry which was looking after industries. In 1952 a new Ministry of Production was formed and quite a large number of the manufacturing enterprises in the public sector were put under its control. The Department of Steel was set up mainly for looking after the new public sector steel projects. In 1956, the Ministry of Production was abolished and most of the enterprises under its control were transferred to the Ministry of Commerce and Industry. A new Ministry of

[3]For a detailed discussion of this proposal see the present author's "Public Participation in the Capital of State Undertakings" in *A.I.C.C. Economic Review*, January 6, 1961, pp. 63-67; also see *Capital*, November 3, 1960, pp. 631-32.

Steel, Mines and Fuel was established with two departments—the Department of Steel and the Department of Mines and Fuel—under it. In 1962 there was a further reorganisation of ministries; a new Department of Heavy Industries was created and the more important of the public sector industrial projects were transferred to it. Thus the present organisation at the government level is that a number of indistries and departments control public sector undertakings, those controlling a large number being the Ministries of Finance, Defence, Industries and Mines and Fuel, the Departments of Steel, Heavy Industries, Transport and Communications, and of course the Ministry of Railways (Railway Board). Enterprises in the field of atomic energy have from the beginning been put under the charge of the Department of Atomic Energy. Unlike at the time when the Ministry of Production was in existence, now there is no ministry or department whose exclusive task it is to look after public sector undertakings in a particular field. The ministries and departments are allotted certain functions and they control private as well as public enterprises which come under their functional scope. The main exception to this arises in the case of some manufaciuring and engineering enterprises which either because they are serving the needs of particular departments or undertakings under these departments or because of some other reasons, have been from their inception under these departments. Thus, not only the Air Corporations but also the Hindustan Shipyard is controlled by the Department of Transport; not only the P & T but also the telephone and tele-printer factories are controlled by the Department of Communications; and Hindustan Aircraft and Bharat Electronics are controlled by the Ministry of Defence.

There has been no organisation in the government which is specially given the authority and responsibility for looking after the common problems of public sector undertakings. At a time when the large bulk of enterprises were under the control of the Commerce and Industries Ministry, a Projects Coordination Committee had been set up under that Ministry for the purpose of ensuring coordinated policy-making in public undertakings. Representatives of related ministries and other public sector projects were also sometimes invited to attend the meetings of this committee. However, the experiment of this committee does not seem to have succeeded, only a few meetings being held between 1957, when the Committee was first organised, and 1961.

In 1961 the Ministry of Commerce and Industry was also given the task of coordinating the overall policies of public sector undertakings in non-financial matters. However, with the reorganisation of ministries in 1962 as explained above, this particular ministry lost the more important undertakings to the new Department of Heavy Industries and since then the Projects Coordination Committee as well as the general

coordination work seem to have been in abeyance. On the financial side, the coordination of policies is attempted to be ensured through the Project Coordination Section of the Cepartment of Expenditure in the Ministry of Finance. The fact that a few senior officers from this department sit on the boards of a number of undertakings further facilitates such coordination. The Ministry of Labour has sometimes attempted to bring about coordination in the labour policies of public undertakings through holding meetings of the representatives of concerned ministries and enterprises. There is however as yet no organisation in government which has the overall responsibility for examining the common overall problems of public sector undertakings and coordinating their policies.

One method of bringing about some coordination in the policies of closely related enterprises is to arrange some type of interlinking among them. In the financial enterprises this is done through the interlinking of capital holdings as explained earlier. We also find that the instrument of common directors is used to bring about a certain degree of interlinking. We have already mentioned the case of officers from the Finance Ministry who are directors of a number of enterprises. Similarly, some officers may be directors of a number of enterprises under the control of a particular ministry. There seems to be in some cases a deliberate policy of appointing common directors in the case of enterprises which lie in the same geographical or technical areas; for example, we have such interlinking of directors between Air India and the Indian Airlines Corporation, the Reserve Bank of India, the State Bank of India, and other financial enterprises, Hindustan Steel and the Heavy Engineering Corporation, and the Oil and Natural Gas Commission and other public undertakings in the petroleum field.

A more direct way of ensuring coordinated policy-making amongst units which work in the same technical area or which are in some other ways closely connected is of course to have a common top management for such units. This can be done through putting such units under one undertaking. In the earlier stages of the development of the public sector, the policy seems to have been to set up a separate organisation for each producing unit. Thus, after the establishment of Sindri Fertilisers and Chemicals, when it was decided to develop another fertiliser unit at Nangal, a new company was set up for managing it. But later on this policy underwent a change. All the three steel projects in the public sector were put under one company, the Hindustan Steel Ltd., all the fertiliser units (including that at Rourkela which was originally put under Hindustan Steel) under the Fertiliser Corporation of India and so on. The new units that are being set up for the production of machine tools are being up under the overall charge of Hindustan Machine Tools and those in the field of heavy electricals under Heavy Electricals. The Drugs and Pharmaceuticals, the Heavy Engineering

Corporation and the Shipping Corporation are other examples of this policy. It cannot however be said that this pattern of organisation is definitely established and accepted. While there has been from the beginning a discussion about the desirability of having only one corporation for internal as well as international air transport, the government did not and has not yet accepted this solution. The Hindustan Teleprinters being set up as an independent company, even though it lies broadly in the same field as the Indian Telephone Industries and is even controlled by the same ministry, is another indication of the hesitation in firmly adopting this kind of organisational pattern.

This hesitation is probably due to genuine doubts about the effectiveness of this pattern of organisation. The discussion in this respect in recent years has specially concentrated around the organisation of Hindustan Steel. There has been a view persistently coming up that the creation of an intermediary organisation between the controlling ministry and the individual plants is on balance not advantageous. It is said that effective control regarding most problems of higher management has been and will always be exercised by government, therefore, the headquarters organisation such as the Hindustan Steel management at Ranchi just proves to be an ineffective intermediary—almost a post-office —between the government and the plant management. It has, therefore, been sometimes suggested that the government should deal directly with the individual plants and that this middle organisation should be abolished. The government has not accepted this suggestion. It is interesting to note however that a decision has already been taken not to put the proposed steel plant at Bokaro under the management of Hindustan Steel. A separate company is going to be set up for that purpose. It is however, possible that this decision arises from the very special factors that affect the proposed project at Bokaro and is not necessarily an indication of the future policy of government about the pattern of organisation.

THE QUESTION OF AUTONOMY

Almost since the beginning of the post-Independence development of the public sector, the question of the autonomy that the managements of these undertakings should enjoy has aroused considerable discussion. In the case of the Damodar Valley Corporation the question became especially controversial because the Corporation's first board insisted on carrying on its work in an autonomous way as provided for in the Act while the controlling ministry and the Ministry of Finance seemed to hold a different view in the matter. The question again came to public attention as a result of the controversy that arose regarding certain investments made by the Life Insurance Corporation and the conclu-

sions which the Chagla Commission[4] stated in its enquiry report on this subject.

The question of autonomy seems to be raised many times on a somewhat fallacious understanding of the situation regarding public sector undertakings in other countries and specially in the U.K. Many persons had the impression, principally based on the nationalization statutes in the U.K., that the public undertakings there enjoyed virtually full autonomy except in matters which were formally reserved for government decisions. The material that has become available recently about the actual way in which the British public undertakings function, especially the reports of the Select Committee of the House of Commons on nationalised industries, quite clearly indicates that there is a great deal of indirect influence exercised by government in matters supposed to be purely within the jurisdiction of the undertakings. It is also sometimes overlooked in these discussions that in India we are attempting to build up a planned economy. Even private sector undertakings are subject to considerable controls by government. Public undertakings moreover are set up principally in fields that are vital to economic growth and the proper functioning of the economic system and they are, therefore, bound to be subject to greater regulation and control than private undertakings. As a matter of fact, one of the reasons why certain undertakings are nationalised or a decision is taken to reserve the development of certain industries for the public sector is that close control and regulation is considered necessary in their cases so that their development may take place in accordance with the requirements of public interest. Therefore, there can be no question of public undertakings in India enjoying 'full' autonomy, whatever that may be. Decisions on matters like location of new projects, investments, foreign collaboration, overall policy regarding salaries and wages, the composition of output, the use of surpluses, price policy and labour policy are bound to be reserved for the consideration of government. This is indicated by the power reserved to government under the public corporation statutes and the articles of association of government companies. As in most other countries, including the U.K., the government also has the power of giving directions in policy matters where these are thought to be necessary.

The real question is, therefore, not whether the government should exercise a significant degree of control over these undertakings or not; it is clear that in a public undertaking many of the functions that would be carried out by the board of directors in a public enterprise will have to be vested in government, especially in an economy which is increas-

[4]Report of the Commission of Enquiry into the affairs of the Life Insurance Corporation of India, 1958.

ingly planned. The relevant question is, once these broad policy decisions are taken by government, should the actual management of the enterprise be left entirely to the top management that is appointed for that purpose or should the government in one way or another also participate in this task. The approach accepted by the Government of India in practice seems to be that it is necessary for government to be associated even in the process of decision-making in the enterprise. It is not possible to distinguish clearly between broad policy decisions and management decisions; there is bound to be much overlapping between these, and therefore in order to ensure proper and smooth functioning it is much better to have a flexible approach in this matter. In pursuit of this policy, the government has developed a system of indirect control in addition to the formal controls and powers that the government has. The most important of such instruments was that in the board of directors appointed for carrying out the management of the enterprise, a number of government officials were included. Till recently in the case of the majority of boards, the secretary of the controlling ministry or another senior officer was appointed as chairman of the board; an officer of the Ministry of Finance was also included in the board. Moreover, the chairman as well as other directors, and especially the director from the Ministry of Finance, had the right to suggest that a matter that was being decided by the board should be reserved for obtaining the advice of government. This system could be relied upon to ensure that even in matters that were not formally reserved for government's decision making, the government's views would prevail. The effect of this system quite naturally varied from enterprise to enterprise.

The actual working of the board depended, as it is bound to depend, upon the personalities involved. A strong and senior managing director who enjoyed the confidence of the minister in charge or sometimes of other senior ministers was able to get the board to agree to his views on many matters, to go his own way and to make a success of his enterprise. If he belonged to the senior civil service of the country and was sufficiently senior in that service, that helped him also to obtain the concurrance of the civil service members of the board. There are some excellent examples of such successful functioning in the public sector, but there are also known to be other cases where such a special and advantageous situation did not exist. The top managers in such undertakings feel that the official directors fail to understand their point of view and their problems and that, therefore, efficiency suffers. The complaint seems to be not so much about the formal delegation of powers to the board as about the manner in which board itself functions because of this kind of composition. It is also alleged that instructions, oral or written, are received from ministries about matters that are within the powers of the enterprise management; but it is not

possible for the managements easily to ignore such instructions. The policy has the effect of blurring responsibilities and the creation of feelings of helplessness or indifference in the minds of the actual managers.

As a result of the discussion about this problem and the experience gained, the government decided recently that the serectary to the government in the controlling ministry should not be on the board. It was also decided that though representatives of the controlling ministry and the ministry of finance should be on the board so as to maintain liaison between the government and the enterprises, they should have no power to reserve a proposal or decision for the advice of government. This power is now to be enjoyed only by the chairman of the board. It has also been decided that in order to ensure quick and well-considered decisions on references from public enterprises to government, the decisions should be taken at high levels in the secretariat. The powers of the boards are being enhanced and it is expected that this would also result in a greater autonomy in management being enjoyed by the boards[5].

MANAGEMENT BOARDS

This leads us to the question of the changing pattern of the management boards of state enterprises. Confining our attention to enterprises which are either fully or mainly owned and controlled by the Government of India, we find that a certain pattern for the board has been in existence for some time now, both in the case of statutory corporations and government companies. In addition to officers from the controlling ministry and the Ministry of Finance as mentioned above, there are a few other civil servants, some from other government organisations which may be supposed to have some relationship with the functioning of the enterprise and sometimes also an officer from a state government—generally from the state where the project is located. There are generally two or three non-officials, one mostly a labour leader (generally belonging to the INTUC) and a businessman or a present or past member of the Union or state legislature or an economist or a retired civil servant, etc. There is generally only one full-time director, designated as managing director and/or chairman, and in all cases he is brought from outside the enterprise. This has been the normal pattern. But there are two kinds of exceptions. One is the case of finanacial corporations like the Reserve Bank, the State Bank and the Life Insurance Corporation. In all these, the number of non-official directors is large enough to give them a majority on the board; and many of these non-official directors represent some expertise or

[5]Government of India, Ministry of Commerce and Industry, *op. cit.*

experience valuable to the functioning of the board. The number of full-time directors is also large. The other was the case of Hindustan Steel. We shall discuss it presently.

This normal pattern of state enterprise boards came under a great deal of criticism. It is not now necessary for us to go over this ground fully as some significant changes in government's policy in this regard were announced in 1961.[6] Some of the main points in the new policy have already been mentioned earlier. It was further decided that:

(*i*) Members of parliament will not be appointed as directors of state undertakings.

(*ii*) No officer who is assigned ordinary secretariat duties would be appointed as a director in more than three or four concerns.

(*iii*) The chairman and/or the managing director would be full-time, except in the case of very small concerns.

(*iv*) Government did not like the idea of having internal part-time directors. When internal directors are appointed, they would be full-time directors. Reservation of all appointments on the board to company employees was likely to meet with practical difficulties and therefore cannot be accepted.

(*v*) No full-time director should have any connection with private business. Part-time directors connected with private business may be appointed provided no question of conflict of interest was likely to arise.

This policy no doubt goes a long way to meet the various objections raised against the pattern of boards set up by government up to now. The government seems to have agreed at that time that the ideal would be to have a significantly large number of internal full-time directors. A beginning was to be made by ensuring that in most cases at least the chairman and the managing director should be full-time. The implication seems to have been that more full-time directors would be appointed as necessary and available. They would not all or even mostly be internal at this stage because many of the undertakings being new they are not likely to throw up enough competent persons to be appointed as directors.

As indicated earlier, in the context of state enterprises in an increasingly planned economy like India's, major policy decisions regarding the enterprise are likely to be taken by the government and not by the enterprise board. Thus, the real function of the board will be to ensure the proper performance by the undertaking of the tasks set before it. Directors with a great deal of continuing outside experience and contacts are not really necessary on a board of this type.

[6]Government of India, Ministry of Commerce and Industry, *op. cit.*

With the increasing tendency to group a number of similar units under one large firm, we are bound to see coming into existence a number of giant-sized state enterprises. The board of Hindustan Steel before its recent reconstitution was thought to be a good example of what the pattern of boards for such enterprises can be expected to be. This board had a full-time chairman, who was the chief executive of the undertaking, four full-time directors each in charge of a particular function (personnel, finance, operations, construction), three (internal) part-time directors who were general managers of the three steel plants and two or three other part-time directors, one—a senior official of government, one—the chairman of the Heavy Engineering Corporation, and one—a labour leader from the INTUC who was the leader of trade unions of steel workers in the private sector.

It was obviously thought that for a giant enterprise of the size of Hindustan Steel, it was necessary to have a board which has a large complement of full-time members. Because of the large number of problems that are bound to arise all the time requiring review and decision-making by the board, only a board which has a large number of full-time members can cope up with this work. The difficulty that the part-time members were not likely to be available for frequent meetings, was got over by the creation of a Committee of Management and delegation by the board of substantial powers to this committee. Thus, the committee, which mainly consisted of full time directors, could meet as often as necessary to dispose of the business.

But surprisingly enough, this experiment, which was thought to be an indicator of the future pattern of the boards of state undertakings, has been given up and in the recent reconstitution of the Board of Hindustan Steel, the pattern usual in other undertakings has been followed. There will be a full-time chairman and in course of time all the other directors will be part-time. There will be a senior officer to represent the controlling ministry and the Ministry of Finance; in addition to the existing part-time directors, one, the chairman of a sister enterprise and one, a labour leader, there will be two well known managers from the private sector. The general managers of the three plants will continue to be part-time directors but this is said to be purely a transitional arrangement, as the government does not want to deprive persons who were already directors of their status as directors. But in future there will be no such inside part-time directors. Similarly, in the Fertiliser Corporation and the Heavy Electricals, the status of part-time director which was being enjoyed by the top managers of the individual plants is not being conferred on new incumbents of these positions. This seems to indicate that the government has now decided that the pattern of a predominantly functional board consisting mainly of persons working full-time in the undertaking is not a suitable one.

The question of the type and composition of the board is inevitably closely related to the functions of the board. In the case of enterprises which are carrying out mainly governmental or similar functions, of which the Reserve Bank is the best example, a board which consists mainly of persons who can advise on broad problems of policy with knowledge and experience may be quite appropriate. But in the case of enterprises which have specific manufacturing or trading functions to perform, and in whose case broad policy decisions will anyway lie with government, the only function of the board will be to provide the over-all management of the enterprise—to appoint the principal executive, to define the organisational structure and internal relationships in the concern, to specify detailed targets of output, costs, etc., to exercise overall control, to review operations and provide correctives, to maintain liaison with government and parliament, and to prepare for the future by organising research, preparing expansion schemes, and arranging for their execution. Can these functions be best performed by a board predominantly consisting of members whose main area of activity lies outside the enterprise?

This problems has been debated for long in the literature on management organisation and it is obvious that one should not be dogmatic about the answer.[7] A great deal is bound to depend on the types of persons that are available for appointment, the confidence that they can obtain of the government and other such conditions that would vary from enterprise to enterprise and from time to time. It has been pointed out that part-time members of the board can be of great help to the chief executive, chairman of managing director, not merely because of their knowledge and experience but because they can have influence with the minister and generally in the public which helps obtain support for the management once these persons can be convinced of the management's case. It is also said that persons from the business world can be more easily persuaded to accept the management's case because they are in touch with similar problems in their own concerns. It is also maintained that to carry out the functions that a largely internal board can more effectively perform, there may be a Board of Management which consists of the heads of plants and heads of the main functional areas.

[7] The speech of P.L. Tandon, Chairman, Hindustan Lever Ltd., delivered at the recent annual general body meeting of that company, deals with the Lever Group's approach to this problem and would be found interesting in this connection. See especially the following extract: "We have no doctrinaire views on this subject (of working directors against outside advisory directors), but for the recurring day-to-day affairs of the Company, we think that a working board is the practical answer, which is also the experience of many progressive companies elsewhere. As for advice, we have plenty within the concern, but whenever we feel the need, we do not hesitate to look for it outside", *The Economic Weekly*, June 15, 1963, p. 976.

This would also be useful to establish in a clear way the superior position of the chief executive—the full-time chairman or managing director.

There is undoubtedly much to be said for this approach which is now again gathering strength in governmental circles. Boards of Management already exist in some enterprises and if these are formed in others, they would carry out all the principal functions that were mentioned earlier as those of a board. The board of directors will then be a body whose principal function will be to advise the chief executive and to help him in his functioning *vis-a-vis* the government, the Parliament and the public. One may wonder, however, whether it is really necessary to have boards of directors in state enterprises for this purpose.

Whether it is called a board of management or a board of directors, it is essential that there should be a body which consists predominantly of the principal executives of an enterprise and carries out the functions that are indicated above. Not having a competent and knowledgeable body for this purpose is bound to have a deleterious effect on the functioning of an undertaking. It may even be that this body may be located in the controlling ministry itself. This will have the advantage that the problem of overlapping functions will not much arise. However, the disadvantages of this course—much greater possibility of political pressures and policy changes for purely temporary reasons, the unbusinesslike traditions and methods of government organisations, etc.—will probably outweigh the possible advantages.

TOP MANAGERS

Most of the Chairmen, Managing Directors, and other full-time top managers of public undertakings have been drawn up to now from government services. Moreover, quite a significant proportion of them belong to the top generalist civil service—the ICS. In recent years an increasing number of persons with technical or financial experience in government organisations have also been appointed to such positions. There is no significant example as yet of persons from within an enterprise rising up to the topmost positions outside of older organisations like the Railways, the Posts and Telegraphs, the All India Radio and the Reserve Bank. This is not very surprising because most of the public sector undertakings are new and there has not been enough time yet for men from within the organisation to grow up to occupy top positions. It is, however, necessary that a deliberate policy of developing personnel from within the undertaking for taking over top positions in the public sector should be pursued. While the government should be free to go to any source to find the best available person when persons are not available within an enterprise for occupying top positions, there would be something seriously wrong with the personnel management of public

undertakings if within ten to fifteen years of their beginning to function they cannot throw up a large part of the top managers required in the public sector. It is sometimes said that limiting the choice to persons in public sector undertakings will create a vested interest. It is only necessary to add that we have to guard not only against the growth of new vested interests in public sector personnel but also against the established vested interests of traditionally powerful government services.

Moreover, even when full-time top managers have to be imported from outside in this early stage of the development of the public sector, it is necessary to ensure that they are carefully selected and, what is even more important, helped to build up knowledge and capacity for the new type of work that they have to perform. Very few persons with experience of industrial and business management in the private sector have been appointed to top positions in the public sector. This has been the result partly of the scarcity of such personnel and partly of the disparity in remuneration between efficient and successful private concerns and public undertakings. For occupying some key technical positions in public undertakings, government has had to attract some persons from the private sector and specially high salaries have been paid to them. There is no reason why a similar policy cannot be adopted for attracting some top management personnel. Persons with a real capacity to manage large and complex undertakings are few in any country, and more so in India, with such little development of modern industry till recently. The dogmatic policy about management salaries has unduly limited the field of choice for top managers of public undertakings.

When persons from government services are being selected for occupying top management positions in public undertakings, care has to be taken to see that the individual has had some experience of dealing with problems and personnel of the type he will come across in the particular undertaking. A person may not be capable of handling the financial problems of an undertaking merely because of his having worked in the accounts, audit or finance departments of government. A successful railway manager may not always make a good manager for a chemicals or a metallurgical plant. A successful secretariat or district officer may not always be able to provide the kind of leadership expected from the chief executive of a complex and large undertaking. These statements would be considered obvious but anyone acquainted with public undertakings can easily recall instances of wrong appointments of this and other kinds. After careful assessment of the requirements of the particular job, a careful search has to be conducted for finding a person coming nearest to satisfying these requirements. It does not seem that the process of selection has been sufficiently pur-

posive and systematic up to now. While some selections have proved to be good, some others have proved to be bad and because of the seniority and status of some of those wrongly selected, it has not always been possible to undo the mistake in time.

Even if a good man is chosen, it is necessary to keep him long enough in a particular enterprise if he is to develop better understanding of the problems involved and contribute his best for its success. In the past, there have been too frequent changes in the persons at the top in some undertakings. Sindri, Hindustan Aircraft and Hindustan Steel seem to have been among the worst sufferers in this respect. For the success of an industrial undertaking, what Galbraith has called its 'synthetic personality' needs to be carefully built up and stabilised. This involves "an intricate problem of cooperation and coordination between its parts" which in turn is "the fruit of familiarity and confidence as between the participants."[8] But this familiarity and confidence can be built up only if there is a significant degree of continuity in the top management team. If there are frequent changes, maybe because some individuals are being offered better positions elsewhere or because a new minister or secretary has a different conception about individuals and organisation, it is bound to affect the working of the top management adversely. Of course, if a top manager does not enjoy the confidence of the concerned minister and his principal advisers, he should go and that too as early as possible. This kind of situation becomes public knowledge in the enterprise in an astonishingly short time and a long period of waiting for the change can be highly damaging to the morale and efficiency of the organisation.

It can be too much emphasised, however, that the real solution to the problem of finding suitable persons for top management positions in public undertakings lies in a vigorous policy of potential talent-hunting and the development of such talent. Already a number of talented and experienced persons are being recruited from various sources—civil service, defence services, private industry and the professions—for middle-level positions in the public sector. The flow of such talent into the public sector will increase—and the existing and potential outflow will diminish—if the disparities in real income and other conditions in private and public undertakings could be significantly reduced. Once such talent is secured, personnel management practice in public undertakings should be improved to ensure its rapid development and advancement. A major difficulty is created in this due to the prejudice in India generally and in the public sector specially against advancing even talented persons rapidly so that they occupy top positions not

[8]J.K. Galbraith, "Public Administration and the Public Corporation", *Indian Journal of Public Administration*, Vol. VIII, No. 4, 1962 pp. 440-41.

later than their middle 40's. Even in advanced countries, where talent is somewhat less scarce, it is not unusual for persons to reach top management positions in their early 40's. In India really talented persons should be permitted to reach such positions even earlier. This is also important because persons who have grown up in this kind of modern and complex undertakings can face the problems thrown up in their management with better knowledge, experience and confidence than others who have mainly grown up in the pre-Independence and pre-development period.[9]

Management Methods

The policies, methods and procedures pursued by managements of most public undertakings have been largely patterned on those prevalent in government. This has been the result of a number of factors, the most important one being that only a few of these undertakings were originally working in the private sector and therefore had already adopted certain businessl ike methods and procedures; most are new undertakings built up by government from scratch and have had no previously built-up tradition of businesslike management. The fact that most of the top management personnel have been recruited from government services, the close control exercised by Government—including the Ministry of Finance—over these undertakings, the powers regarding audit enjoyed by the Comptroller and Auditor-General and the accountability of these enterprises to Parliament which leads occasionally to close questioning even about the internal management of an enterprise—all these help to strengthen the tendency towards adoption and continuance of policies, methods and procedures current in traditional governmental organisations. These procedures, as is well known, are not suited to carry out the developmental functions of the post-Independence government. Various authorities, political as well as academic, have spoken out in favour of changing these "out dated manuals". Whatever may be the case with the normal government functions, these traditional rules and procedures were never developed with a view to managing large and complex business undertakings. But, unfortunately, with a rare occasional exception, most public undertakings are willy-nilly following them. It is difficult to understand why, when the company form was borrowed from private business organisa-

[9]For some time it was thought the best method of meeting the needs of public undertakings in managerial personnel was to organise a special cadre for the purpose. It was in pursuit of this line of thinking that the Industrial Management Pool was formed in 1957. The experiment has not proved successful and the government seems to have decided to give it up. For a more detailed discussion of the problems regarding management personnel, see the present author's ***Industrial Management Pool: An Administrative Experiment***, Indian Institute of Public Administration, New Delhi, 1962.

tion because it was already well-developed, the best business practices in internal organisation and methods were also not accepted as necessary and proper. The main reason for this seems to be not so much a well thought out policy as the dead hand of tradition and also insufficient attention to this vital reform by top managers, administrators and government leaders. The basic approach behind some of the traditional procedures in government—maximum fairness to all, careful use of public resources etc.—is commendable but the emphasis on other objectives had to be greater in a business undertaking. When large and complex tasks of construction or production are to be handled, speed in decision-making may be more important than obtaining the absolutely correct decision (if there is any such thing). Ignoring hundreds may be essential for saving thousands and lakhs. These facts have not as yet been appreciated enough in practice in Indian public undertakings.

This is not to say that in certain respects public undertakings have not blazed at new trail in the Indian economy. Vast new projects have been undertaken and carried out on a scale that was never attempted by the private sector in India, the defects and delays notwithstanding. We cannot also ignore the fact that modern business management had not made much headway even in the private sector in India till recently. Moreover, public undertakings have adopted certain policies that indicate a better understanding of the long-term needs not only of the particular units but also of the national economy as a whole. Their achievement in the training of technical personnel for construction, operation and, more recently, designing of modern industrial complexes have hardly any precedence in the history of even the most enlightened among private sector undertakings in India. The result is that it is not improbable that the country will be able to design and construct new plants in most industrial fields in the near future. This is already happening in fields like machine tools and fertilisers to a significant extent and more progress would have been achieved even in the field of steel if the administrative and management policies had shown greater awareness of the need to utilise the training and experience that Indian personnel obtained especially in the construction of the Bhilai steel plant. The policy of providing decent housing and other welfare facilities for the labour force employed at the new plants though some what overdone at some places is bound to have a beneficial effect on the creation of a stable and efficient labour force for the rapidly growing industrial sector. The defects that are pointed out here should not be taken to mean that there are no worthwhile achievements to the credit of the public sector. The efficient and successful functioning of the public sector is however so important for our economic growth that it is essential to point out such defects and indicate the remedial action necessary.

MACHINERY FOR EVALUATION AND REFORM

To improve the management of public sector projects, it is essential that the governmental and administrative policy-makers should adopt a more eclectic and experimental approach to the problems faced by these undertakings. This will require giving up certain dogmas when they are found to be inconsistent with the realities of the situation. There is far too much trust and confidence in this country, to some extent inherited from our former rulers, on the non-expert amateur as a manager and on rule-of-thumb methods. Untrained and inexperienced personnel are not trusted to handle a piece of machinery; but it is thought that a person can handle the financial, personnel or overall management problems of a whole industrial complex without any special training or experience in that kind of work. There is also a reluctance to face facts about the importance of incentives—monetary and non-monetary, positive and negative—for maximising efficiency. We should not overlook the fact that even in the USSR the rulers quickly gave up their egalitarian dogmas when they found that incentives were essential for most people —high or low—especially in the early stages of the industrialisation of a country. Similarly, even when we have clear examples of success and failure among public sector undertakings, there seems to be some reluctance to learn lessons from these differences in attainment and to transplant the policies and procedures of the more successful units to the less successful ones.

One major factor responsible for this is that there is no organisation in government whose task it is to bring together such data, analyse them and suggest remedial action. There is not even a system of getting full-scale progress reports on various projects which would provide information on both the good and the bad points, successes as well as failures and indicate the factors responsible for these. While the audit reports, and the reports of the Estimates and Public Accounts Committees have been somewhat useful in this respect, they are not adequate for this task. Even the studies that may be made by the proposed Parliamentary Committee on state undertakings are not likely to serve this purpose adequately. What is necessary is an expert evaluation organisation, mainly working in confidence for the government, with access to all the data, and charged with the responsibility of continuous study, evalution and suggestions for improvements. This work of this organisation should be supplemented by a more systematic functioning of the Projects Coordination Committee which should include representatives of all public sector projects. The labours of these organisations will not bear practical fruit unless there is a ministry in government, under a senior cabinet minister, which is in overall charge of management organisation and problems of public sector undertakings.

The managements as well as the workers in public undertakings are also likely to show better results if the main criteria by which their performance will be judged are clearly laid down. In the private sector, the principal criterion is well-known—good profits; and while other norms are also important and receive some attention, management knows that it will be principally judged on this basis. In the public sector there is too much blurring regarding objectives. While in a complex undertakings, it is not easy to decide any one criterion of performance, it should be possible to devise a few criteria for such judgement. These may vary from enterprise to enterprise and from time to time, but concrete goals of this kind are likely to act as excellent spurs to improving performance. It may not also be out of place to suggest that public recognition of the units and the individuals who do well may have a significant effect on their morale and also generally act as an organised system of presidential awards is a good beginning; but the criteria used are not sufficiently clear and well known to act as spurs for better performance. This could be easily improved. ◻

Corporation Versus Departmental Form in Road Transport*

V.V. Ramanadham and N.K. Nangea

THE PROBLEM of choice between the corporation and the departmental form is a familiar one for the students of public enterprise. It is not proposed to discuss it here in abstract terms. The object of the article is two-fold: to provide the theoretical analyst with a case study illustrating the empirical considerations underlying the choice; and to provide the policy-makers with a scientific analysis of the conditions relevant to the choice in the case of road transport. The fact that there are already several corporations as well as departmental organisations in the field enriches the factual content of the discussion, though at the same time it does complicate the conclusions on choice.

The urgency of the discussion arises from three basic considerations. Firstly, there is the need to ensure that the rapidly expanding nationalisation of road transport as accompanied by the most appropriate form of organisation, in order that the efficiency of the nationalised services may be at maximum. Secondly, the framework of organisation must be so evolved that the Central Government and the Planning Commission would have no reason to limit or disfavour the state governments' plans of extended nationalisation of road transport. Thirdly, it is necessary to distinguish the relevant from the spurious and popular arguments in favour of either the departmental form or the corporation and build up the argument of choice on a pragmatic basis.

Considerable importance has already been attached to this question by the Planning Commission which advised the states, as early as in 1954, of the desirability of setting up tripartite corporations. The principle was reiterated at the time the second plan expenditures of states on road transport were approved; and the Planning Commission has since stuck firmly to the view that these allotments were conditional on

*From *Indian Journal of Public Administration*, Vol. VI, No. 1, 1960, pp. 52-66.

the formation of corporations. Bombay and Delhi already had corporations; corporations were formed in Kutch, Saurashtra, Andhra Pradesh and Bihar, partly as a sequel to this policy, though UP, Kerala, Assam and Orissa refused to accept the suggestion. Mysore, Madhya Pradesh and Punjab are still considering the question. Meantime the Planning Commission seems to be keen on presenting the non-conformist states with a slash in their general plan expenditures to the extent of their outlays on *departmental* road transport.

Clearly the problem of choice has gone beyond the precincts of academic analysis and has assumed great public importance. A dispassionate discussion is likely to be helpful in practical policy formation.

Let us start on the basic assumption that the organisation of an industry must be conducive to its special requirements. The distinctive features of the road transport industry, which may be held among the criteria of choice of organisation, may be briefly enumerated as follows:

(*i*) The optimum unit is small in size; the overall organisation, if any, must be such as would admit of the functioning of the small optimum units as autonomous commercial units.

(*ii*) The several optimum operating units may, if at all, be interlinked by means of loose organisation which may provide a few central services, if such a course makes for economies.

(*iii*) The operating conditions are so diverse from region to region that methods and practices may have to vary accordingly and there must be sufficient scope for quick decisions by local managers.

(*iv*) There is special premium on personal cotact with the operating staff; the task of preventing leakage of collections calls for devices connected with the personal factor; and conditions must be promoted for the emergence of local leadership for the staff.

The under-current of these desiderata is the propriety of small units and decentralised managerial behaviour in road transport. If nationalisation is likely to affect these two conditions—and if we decide on nationalisation—it is imperative to decide on a form of organisation that least damages these conditions.

THE THEORETICAL FRAMEWORK

The case for a corporation, as against a department, may be summed up briefly in the following terms:

Principles of working: The corporation can work on business prin-

ciples and adopt the necessary pattern and degree of diversity in operating methods and pricing policies, as required by the varying conditions of supply and demand in the different regions. It can be free from political interference in its routine operations.

Routine working: It can adopt commercial practices and be free from governmental procedures, with reference to the maintenance of accounts, expenditure, recruitment, promotion and salaries, purchases, etc.

Management: It can function autonomously; the corporation method permits of the composition of the board in a variety of ways, so that the most appropriate in a given situation may be adopted. Further, there can be enough flexibility in the capital structure; private capital can be invited, if need arises.

Price and profit policies: The corporation can work on the basis of long-term policies of pricing and profits; and the identity of its operations is not lost in the aggregate financial operations of the Government, year by year.

Government vis-a-vis the corporation: The corporation can be treated as an economic organisation, to which the government is not a direct party; and whenever conflicts inherent in the industrial system, involving consumers' and workers' interests arise, the government can maintain its detached position as arbiter.

THE LEGISLATIVE BACKGROUND

The public corporation, unlike a joint stock company, has no universal legal form. Each corporation has its nature and structure defined by the Act which brings it into being. It is, therefore, necessary to examine first the statutory structure of the road transport corporations in this country and enquire as to what extent it conforms to the theoretical mode of the corporation.

As our main purpose is to compare the department and the corporation, such provisions of the Acts may alone be examined as concern the points of contrast between the two forms. The provisions may be classified threefold, corresponding to the following three questions:

A. How far is the theoretical distinctiveness of the corporation preserved by the Acts?
B. To what extent can this distinctiveness be actually preserved, or deviated from under the written word of the Acts? and
C. Where is the distinctiveness not preserved at all?

The relevant Act is the Road Transport Corporations Act of 1950 which permits the establishment of corporations at the state level; the Delhi Road Transport Authority Act of 1950 may also be examined as

an illustrative piece of legislation.

As regards question A,

(*i*) Section 22 enjoins on the corporations to "act on business principles".
(*ii*) Section 23 permits the corporations to raise capital by the issue of shares; and makes possible the central government's financial participation in them.
(*iii*) Section 26 empowers the corporation to "borrow money in the open market" for raising its working capital.

The above features are not usually characteristic of a State department and go with the corporations.

B : The provisions listed below can be availed of in operating the corporation in consonance with the spirit of its underlying principles; they can also permit practices that run counter to it. The practical autonomy of the corporation depends on the way in which these 'permissive' or 'flexible' provisions are implemented from time to time and case to case. Their analytical significance is that it is possible to find one corporation working more autonomously than another at a given time and that the degree of autonomy of any or all corporations can be extended or curtailed at the will of the government in which the power of implementing these provisions vests.

(*i*) Section 5 leaves undefined the potential membership of the board so much so that it may be composed of all officials, all non-officials, or any combination of the two. On the exact constitution of the board depends its inherent capacity for autonomous decision making and commercial behaviour.
(*ii*) Section 29 provides for the creation of reserves, but subject to the directions of the state government.
(*iii*) Section 33 provides for the appointment of the auditor by the state government. The audit can be commercial or strictly akin to government practice and procedure according as the auditor appointed is a non-government person or the Accountant-General.
(*iv*) Section 34 empowers the government to give directions to the corporation. While such a provision is inherent in many a corporation Act, the specified range of items to which the directions may refer is wide under this Act. In the final analysis, the degree of autonomy of the corporations depends on the frequency and coverage of the directions issued in practice; in an extreme case the corporation can be reduced to the status of a department.

C : Lastly, there are provisions in the Act which tend to reduce the corporation to the level of a department.

(*i*) Under Section 14, the general manager and the chief accounts officer are appointed by the government. Naturally their primary allegiance is to the government they have to look to it for their progress in career.
(*ii*) Section 30, dealing with the disposal of profits, empowers the government to determine the use of profits earned by the corporation; in an extreme case it is possible for all the profits to go to the government, just as the profits of a departmental undertaking do.
(*iii*) Section 32 obliges the corporation to submit its budget for approval by the government. Besides, the section is so worded that the budget can operate with the rigidity characteristic of a department's budget.

The last two provisions are contrary to the spirit of a corporation; similar clauses are not found in the British Corporation Acts.

The Delhi Road Transport Authority Act runs on parallel lines. Section 4, relating to the constitution of the Authority, is clearly illustrative of the official and 'representational' character of the top board, and Section 38 unequivocally cites the Comptroller and Auditor-General of India as the auditor.

The conclusion is that the Acts defining the road transport corporations in India do not allow them the full measure of autonomy which is generally held as the major reason against departmental management.

THE COMPARATIVE FINANCIAL POSITION OF CORPORATIONS AND DEPARTMENTS

As we turn to the grounds of practical experience in discussing the problem of choice, we may commence with one popular comparison between the corporations and the departments, *viz.*, the criterion of financial success.

The seven road transport corporations, (Bombay, Bihar, Pepsu, Andhra Pradesh, Kutch, Saurashtra, Delhi) made a profit of 10.6 per cent of their aggregate capital in 1957-58. The fourteen departmental undertakings (Assam, PTS Nagpur, Marathwada, Kerala, Madras, Mysore, Orissa, Punjab, UP, Rajasthan, West Bengal, Himachal Pradesh, Manipur, Andamans & Nicobar) earned about 14.8 per cent.

There have been losing undertakings both among departments and corporations—*e.g.*, Bihar and Andamans among the former case, DTU and Kutch among the latter.

Some of the highest rates of profit have been associated with the

departmental undertakings of Punjab, UP and Andhra Pradesh; at the same time the Pepsu corporation stands equal to the Punjab Roadways, with the highest rate in India.

The above facts show that there is possibly no direct association between profitability and the form of organisation. There is enough reason to believe that the financial results of many undertakings have been influenced by their local operating and other peculiarities. The point may be illustrated by comparing the corporation in Bombay with the equally large and spreadout but far more profitable operations in UP; and the unprofitable corporation in Delhi with the profitable city services of Madras and Calcutta under departments.

THE ROAD CORPORATION AND PLANNING

Taking the criterion of financial success as inconclusive in regard to choice between the corporation and the department, we may now discuss the contentions of the Planning Commission in favour of the corporation form, in view of their importance for policy formulation. The two arguments advanced by the Planning Commission are: (*a*) that the corporation permits of the fusion of the financial interests of the States and the Railways in the field of road transport; and (*b*) that the corporation ensures commercial principles of working.

Theoretically there is no justification to create a road-cum-rail monopoly for the sake of coordination. Coordination is not an easily definable term. It, however, does not imply the financial well-being of railways through the suppression of road transport.

It is doubtful whether the few railway members on the corporation board can influence its policies all the time. Nevertheless it is possible for them to adopt a successful negative approach, wherever the railway interest is affected, *e.g.*, railway opposition to the corporation's applications for new route permits which may be competitive with railways.

There is a more fundamental flaw in using the corporation as an organisational device for coordination. It is not for a road-rail undertaking to implement policies of coordination. It is for Parliament to declare the policy which ought to be enforced, whether a transport undertaking is wholly railway, wholly road, or rail-cum-road in constitution.

In choosing to travel by bus the passenger after all exercises his own volition and choice regarding the mode of travel. Any interference contemplated through railway influence on the corporation amounts to suppression of his choice.

It may, therefore, be concluded that the case for the corporation suffers, but not gains, on the ground of road-rail coordination.

However, the other ground of facility of working on business principles appears to be quite valid; and the rest of the discussion will relate to it.

AN OBJECTIVE ASSESSMENT

Bearing in mind the statutory limitations to the theoretical merits of the road transport corporations in India, we attempt below an assessment, from practical experience, of the case for the corporation as against the department.

Board and Decision-making Authority

The composition of the boards of all corporations is not similar, as shown in Table 1.

TABLE 1 CONSTITUTION OF THE CORPORATION BOARDS

Corporation	*No. of members*			*Chairman*		*Total*
	Official		*Non-official*	*Official*	*Non-official*	
	Govt.	*Rly.*				
Delhi	4	..	3	Chief Commissionner, Delhi		8
PEPSU	3	1	—	Secy., Tr. Dept.		5
Bombay	4	1	4		Mr. Saraiya	10
Kutch	2	1	1	Collector, Kutch		5
Saurashtra	2	2	2	Secy., Home Dept.		7
Andhra Pradesh	5	2	2	Chief Secy.		10

NOTE: Data collected from the records of the respective State undertakings.

The earlier citation of the 'permissive' provisions may be recalled; these have permitted a variety of constitutions in practice. The chairman is a non-official in the case of Bombay, while officials hold the post elsewhere, *e.g.*, the secretary, transport or home, the chief secretary and so on.

There is generally a predominance of official members. About two-thirds of the aggregate number on all boards are officials. In the case of PEPSU, all are official members, while Bombay has the largest proportion of non-officials—five out of ten.

Among the non-officials, members of the legislature find a place. In Bihar the chairman of the corporation himself is an MLC.

There have been frequent changes in the composition of the Boards,

For example, the PEPSU corporation has had four different chairmen since its inception in 1956. Different persons sit on the Board representing from time to time the selected departmental interests. The Saurashtra corporation illustrates the point. This is an unfortunate result of the system of official membership on the Boards.

The inferences which may be drawn from the actual constitutions of the Boards are as follows:

(*a*) Being heavily 'stuffed' with government men, the corporations cannot claim commercial competency superior to that of the departments.

(*b*) The official members, being steeped in official traditions, bring the usual departmental considerations to bear on the corporation's decisions.

(*c*) There is insufficient continuity of membership on the boards to ensure efficiency and long run loyalties.

In spite of these qualifications to the autonomous potentialities of the corporations, three favourable points ought not to be overlooked. Firstly, the Boards meet frequently and quicker decisions than under departmental organisation emerge. This claim is justified specially in the case of Bihar and Andhra Pradesh where departmental organisations have recently been transformed into corporations. Secondly, though substantively the boards' deliberations tend to be similar to those of the departments, decisions can emerge from the board room without the back-and-forth dilatoriness involved in departmental decisions. Lastly, an improved constitution of boards is basically possible under the Act.

The conclusion, therefore, is that the intrinsic superiority of the corporation is not totally lost on the ground of the present pattern of the boards.

Top Management Managerial Succession

Theoretically the departmental undertaking is subject to three handicaps: (1) The recruitment of staff does not take place on criteria of commercial efficiency; (2) Managerial continuity is lacking in that the occupants of top posts look at the whole range of the governmental establishment for prospects in their career; and (3) Managerial succession at the top levels is qualified by the extraneous considerations—*e.g.*, is the successor an IAS person? and what are the claims, on grounds of seniority, of 'non-IAS' personnel to the posts in the Transport Department? Thus there exist horizontal lines impeding the vertical hierarchical promotions within the hierarchy.

In an organisational review of the existing departmental under-

takings four types may be distinguished:

1. The transport commissioner has under him a Director of Government Transport, as in Punjab, in charge of the transport undertaking.
2. The transport commissioner is the head of the transport undertaking and is assisted by one or more deputies as in U.P. A slight variation is that, on assuming the headship of the transport undertaking, the transport commissioner temporarily relinquishes the duties as the commissioner as in Bihar until the recent inception of the corporation.
3. The transport secretary to the government may also act as a part-time head of the transport undertaking as in West Bengal.
4. An official board may be set up to control the undertakings, as in Bombay in respect of the Provincial Transport Service, and the State Transport, Marathwada, both of which were incorporated into the Bombay State after the re-organisation of the States.

These methods are all subject to the basic handicaps outlined above, though the last one implies an attempt at mitigating them to some extent. Turning to the others, and more common forms, we may observe that first one is possibly the best, in that it places one person in exclusive and full functional charge of the undertaking and he can provide the necessary elements of leadership for the hierarchy of staff under him. The second one is of less certain value, for much depends on the personality of the transport commissioner who holds multiple duties and there arises a duality of leadership from the two top layers of the hierarchy. Further, it is doubtful if the deputies can always reach the top post; hence the very top may be occasionally filled up by a 'non-IAS' man. The third method is the worst, the most serious weakness being the practical absence of leadership-nucleus at the top, for the Secretary is too big, too isolated and part-time, and perhaps too inexperienced in this commercial line to enthuse initiative at the lower levels.

The corporations, on the whole, have the advantage of a higher order of executive leadership and responsibility in top-managerial echelons. However, the statutory power of the government to nominate the general manager has resulted in a clear bias for the choice of IAS men for the post, *e.g.*, in Bombay and Bihar. Three disadvantages seem to flow from this practice: (*i*) The post becomes an IAS-preserve, impeding the prospect of promotion of the non-IAS Deputy to the top post. (*ii*) A change in the general manager implies the advent of a

fresher. (*iii*) The IAS general manager adopts too passive an attitude before the board which, as noted already, is heavily stuffed with senior civil servants.

The superiority of the corporation over departmental management will greatly improve if the top managerial posts are filled up on criteria of functional expertise and if the duplication of civil servants at the levels of the board and of top management is stopped. Such a step is possible, though not yet widely practised, under the Act.

Supply of Capital

Road transport corporations have the advantage of attracting capital from non-government sources and from the railways. Theoretically, they can have a 'mixed' capital structure; and the procurement of funds can be sufficiently flexible. Actually, however, the capital has been provided by the state governments and the railways only; so that the capital structure has remained completely non-private in character. The capital supplied by the railways is of varying importance for the different corporations as shown in Table 2. Not more than a fourth of the total capital at charge of the corporations has come from the railways.

TABLE 2 CAPITAL STRUCTURE OF CORPORATIONS

Corporation	*State government*	*Railways*	*Total*
1. Andhra Pradesh	245	50	295
2. Kutch	17	4	21
3. Saurashtra	50	24	74
4. Bombay	803	407	1210
5. PEPSU	29	5	34
6. DTU	—	—	248*
7. Bihar†	155	—	155
Total	1299	490	2037

*Central Government's outlay
†Railways have not yet subscribed.

The railways have been provided with an allotment of Rs. 10 crores under the Second Plan for investment in road transport corporations. It is doubtful if, for the sake of coordination, the railways should be financial participants in road transport. The question was discussed earlier from another angle. One may ask why, in the spirit of coordination, those in charge of road transport, for example, the state governments, should not be encouraged to participate financially in the railways

so as to influence their policies. We do not suggest that this should be done but that, in principle, it is no less justified than the other policy.

Centralisation vs. Decentralisation

In theory, the corporation is better placed than the department in being able to decentralise the operations as far as the particular needs of particular situations require; whereas the department is constrained to adopt given procedures in all situations. In an extreme case, it is possible for the corporation to operate as a very loose federation or holding company permitting the sub-units to function as small autonomous optimum units.

It is difficult to say, on the basis of practical experience, whether the corporations have really availed of their superior organisational opportunities. The departmental undertakings of Punjab and UP present a fair degree of decentralisation in most matters. The example of UP is particularly striking; in spite of the extensive areas served, the regional general managers are given sufficient freedom to adopt flexible practices of operations and fare making, though technically under the final approval of the transport commissioner. They are empowered to initiate fare differentials from route to route on traffic criteria; whereas in Bombay the corporation makes a heroic attempt at the maintenance of a uniform fare base in all areas served by it. Another example is the corporation in Andhra Pradesh, struggling to maintain unnecessary uniformities as between areas of different operating and demand conditions, *viz.*, Andhra and Telangana.

From our experience it seems that two factors determine the degree of decentralisation. These are, not the area served or the size of fleet, but (*a*) the traditions developed over time, and (*b*) the inherent possibilities of the system of organisation. On the latter ground, the departmental units are ill-placed. For example, they have to make certain purchases through the directors of industries or of cottage industries in Uttar Pradesh. The government auditor's attitude is somewhat non-commercial and compels the undertaking to adhere to rules rather than take commercial risks. Even the temporary creation of posts in regions has to be approved by the top authority. In Bihar the transport undertaking had experienced the difficulty of insufficient cooperation from the PWD.

The corporations are generally free from these handicaps, though they are subject to the same kind of audit as the departmental undertaking is.

It is impossible to generalise on the other determinant of decentralisation, namely, traditions. From experience, we can only conclude that there are corporations as well as departments which have achieved a fair degree of decentralisation.

The Disposal of Profits

The corporation, unlike the department, is at an advantage in being eligible to the retention of a part of its profits for reinvestment purposes. This offers it some freedom from the government in the matter of its capital expenditure programmes.

However, not every corporation has been allowed to build up reserves, for example, the Pepsu Corporation, as such a course depends on the government's directions.

The profits of the corporation reach the government for 'road purposes', as per the Act. This is less desirable than an arrangement under which the amounts are earmarked for 'road transporat purposes'. Under the Act, there is no guarantee that the profits earned by the corporation constitute an addition to the road expenditures otherwise made by the government; there may be a corresponding slash in the latter. Earmarking of the profits for road transport purposes may have the advantage of ensuring the expansion or improvement of the transport services from which the profits have arisen.

On the whole, therefore, as long as the government has the final word in permitting the transfer of profits to reserves, the corporation is not necessarily at an advantage over the department, though theoretically it can be. Moreover, the government is not prevented, in the case of the departmental organisation, from setting up a board within the department, analogous to the Railway Board, and entitling it to the creation of reserves. This has, however, not taken place.

Income Tax

The liability of road transport corporations to income tax has worked in the direction of dissuading the state governments from forming corporations, though strictly this ought not to be a determinative consideration. From the overall national angle, it makes little difference whether the profits are wholly retained by the state governments or partly reach the central government through income tax. But the state government prefers, from its narrow financial point of view, the departmental organisation.

The liability to income tax must be recognised as a serious factor hindering the formation of more corporations in the country. The possible developments in this direction may be outlined as follows. Firstly, if the state governments are forced to convert their undertakings into corporations, they may do so but simultaneously raise the motor taxes, including the recently innovated passenger tax, so that while the state government continues to benefit from higher tax revenues, the corporation will be left with too little profit for income taxation. Secondly, state governments may retaliate by refraining from extended nationalisation. Thirdly, special arrangements may have to be worked

out for the eventual return to the states of a major share of the amounts collected by way of income tax from the road transport corporations. In other words, the rules relating to the non-corporation income tax collections may be extended to this particular area of corporations. This will clearly make for the formation of more corporations; and if the corporation is the better form of organisation, the development will be beneficial to the country at large.

Overall Transport Policy

The relative suitability of the corporation and the departmental form may also be examined from the standpoint of the evolution of the overall transport policy of the state governments. The discussion may proceed firstly under the assumption of incomplete nationalisation, and next, under that of complete nationalisation.

Incomplete nationalisation: The departmental organisation enables the transport department to apply flexible policies towards the extension of nationalisation; and care may be taken to phase it with an eye on the provision of alternative routes to the displaced operators as far as possible, though not always. This is an advantage which has been claimed especially in the case of UP Roadways. As far as the extension of nationalisation is basically a political decision, this advantage is of some weight. On the other hand, where the expansion is dictated by the economic consideration of making the road transport units the optimum units, the corporation seems to be the better alternative since it can proceed mainly on commercial principles. Further, the corporation offers the government the prospect of sitting in dispassionate judgement over the ethics of coexistence between the public sector and the private sector.

It is difficult to specify which is the better form on the ground of its relations with the regional transport authorities. The departmental organisation may be liable to greater political influence from the regional transport authorities, especially where the latter are composed partly of non-officials and MLAs. In practice, however, both departments and public corporations had to meet the same degree of non-cordiality from the regional transport authorities in several cases of issue of permits for routes.

Complete nationalisation: Under this condition, the corporation seems to be preferable for two reasons. Firstly, political considerations are no longer relevant to the question of extending nationalisation and the exclusive function of the undertaking is economical operation. Secondly, the government can act as an impartial arbiter in situations of differences between the corporation on the one side and either workers or the travelling public on the other.

On balance, the corporation guarantees the appropriate evolution

of overall transport policies in the state.

CONCLUSION

In the light of the above discussion we many present the following conclusions:

1. The road transport corporations in India are limited in their autonomy by the legislation concerned.
2. Practical experience does not provide us with conclusive evidence on the relative efficiency of the departments and the corporations.
3. The Planning Commission's insistence on the formation of corporations may have the effect of delaying the extension of nationalisation in certain states; alternatively the nationalisation may be undertaken by states at the risk of a slash by the Planning Commission in their plan expenditures elsewhere.
4. The case for the corporation improves if the 'permissive' provisions of the Act are so implemented by the state governments as to distinguish the corporation from departmental organisation.
5. The corporation form has a definite advantage if there is a genuine need for and intention of associating non-governmental capital with it.
6. The corporation may turn out to be a better alternative where the services extend over a wide region and the operating and demand conditions are diverse within the region. However, the real device necessary under these conditions is the creation of optimum sub-units; and the overall form of organisation is of less significance once this is ensured.
7. The corporation is justified if only it provides against the introduction of railway influence bordering on the limitation of road transport. The choice of a corporation must be determined by its organisational superiority; and the real answer as to the meaning of coordination and the means of achieving it must come from Parliament. We submit that the Planning Commission has perhaps given a wrong twist to the case for the corporation by overstressing the plea of road-rail-coordination. □

Damodar Valley Corporation: India's Experiment with the TVA Model*

Richard E. Hamilton

ONE AMERICAN innovation which has attracted considerable interest in underdeveloped countries is the Tennessee Valley Authority. Although the experiment has never been repeated in the United States a number of river valley authorities patterned quite deliberately after the TVA have been set up elsewhere in the world.[1]

This article examines one of the earliest imitations, India's Damodar Valley Corporation (DVC). The DVC has constructed and operated a large and complex set of projects that may well have had an enormous impact on the most heavily industrialised region of the country. However, no evaluation of that impact will be made here. My intention is to look at some aspects of the DVC's history to see what light the Corporation's experience sheds on the question of the conditions under which a river valley corporation may be a suitable form of administration for river valley projects. The fact that no other river valley scheme in India has been entrusted to a corporation since the DVC was formed, and the fact that a number of important statutory functions have been taken from the DVC and given to other government agencies suggest that the experiment has not been entirely successful. It is important to see whether this conclusion is justifiable, and, if so, to find out what has gone wrong.

THE TVA MODEL

Before looking at the DVC it will be useful to describe that concept

*From *Indian Journal of Public Administration,* Vol. XV, No. 1, 1969, pp. 86-109.

[1]Two examples, The Cauca Valley Corporation in Columbia, and the Khuzistan Development Program in Iran, are discussed briefly in John Oliver, "The Application of TVA Experience to Underdeveloped Countries" in John R. Moore (Ed.), *The Economic Impact of TVA,* Knoxville, 1967, pp. 25-40.

which seems to be meant by the term 'TVA Model'.[2] To describe the term, it is not necessary to make any judgement concerning how closely the TVA has itself approximated this ideal type. The important purpose is to attempt to identify what observers of the TVA, especially those who wish to set up imitations, conceive the TVA model to be.

The principal technical innovation on which the regional authority is based is the multipurpose reservoir formed by constructing a dam across a river. One dam may serve a number of functions each of which would require a separate dam and reservoir if the functions were to be provided separately, as in general they were before the TVA was established. The multipurpose scheme may have as its primary purpose the reduction of flooding in low-lying areas below the dam. However, the water accumulated in the reservoir may be used to generate electricity, to irrigate farm lands below the dam, to provide a regular supply of water for industrial purposes, and to maintain adequate water levels in the river below the dam for year round navigation.

In some cases there may be advantages in giving further functions to the authority entrusted with the job of building and operating the dams. Examples of additional activities are: fish culture, provision of recreation services at the reservoir, promotion of agriculture in the region by research and extension programmes, soil conservation, afforestation, encouragement of small industries, rural electrification and public health. It may even be desirable to grant some river valley authorities comprehensive powers and responsibility for nearly all public sector economic activities in the regions where they are located. A distinction may be drawn between the 'engineering' approach according to which the authority simply erects, maintains and operates the physical structures and the most comprehensive approach labelled by its proponents 'decentralised regional planning'. The TVA model refers to the comprehensive approach. However, there exist many feasible combinations of functions between these two extremes, and one of the conclusions of this paper will be that a great deal of trouble may ensue in cases in which the wrong combination of functions is given to a river valley authority.

Another important feature of the regional valley authority is that it is decentralised, both geographically and functionally. In the United States the TVA may be contrasted with the alternative approach of parcelling out various tasks in a region among a number of federal agencies with

[2]The book which has probably best succeeded in popularising TVA ideals is D.E. lilienthal's *TVA Democracy on the March*, New York, 1953. See also : *The Economic Impact of TVA.*, *op. cit.* An Indian interpretation of the 'TVA Model' may be found in N.C. Basu Rau Chaudhury, "Problems of the Damodar Valley Corporation" in B.B. Mojumdar (Ed.), *Problems of Public Administration in India*, Patna, Bharati Bhawan, 1953.

headquarters in Washington.[3] Thus, the TVA model is thought to appeal not only to advocates of government planning but also to those who are anxious to reverse the tendency towards increasing centralisation of government decision-making. Lastly, and most important according to David Lilienthal, is the concept of "grass roots administration." This concept refers to Lilienthal's policy of provoking and facilitating local users of TVA products to form cooperatives and other democratic organisations which would handle the retail distribution of TVA products. By this device, which an eminent sociologist maintains was an ingenious strategy which the TVA used to gain the support of local groups in its struggle for power with the above mentioned Federal agencies[4], the Authority displayed itself as embodying the liberal idea of limited government, and at the same time furthering democracy at the local level by helping citizens of the area to form cooperatives for the retail distribution of TVA electricity and other products.

BACKGROUND AND DEVELOPMENT BEFORE 1945

The Damodar River has its source in the State of Bihar and flows 336 miles to merge with the Hooghly river in West Bengal about 30 miles below Calcutta. The Damodar Valley occupies 9,240 square miles, about one-fifth of the area of the Tennessee Valley. The principal tributary river is the Barakar which enters the Damodar from the north in West Bengal not far from the Bihar border.

Between 80 and 90 per cent of the annual rainfall, which averages 47 inches, occurs during the monsoon months from June to October. As a result of the monsoon rains the hilly terrain of the upper valley (that part located in Bihar) has become badly eroded and cut by deep gullies. A large portion of the lower valley (that part located in West Bengal) is overlaid with a heavy layer of fertile alluvial soil deposited by the frequent flooding of the Damodar part of the Indo-Gangetic plain before the DVC dams were built. The main crop is rice which is cultivated from June to November. The heavy seasonal concentration of rainfall does not permit dry-season cultivation without supplemental irrigation. This has not been traditionally practised in Eastern India, and irrigation techniques are new to most farmers.

The Damodar Valley and adjoinining area comprise the most valuable industrial region in India. About 80 per cent of India's coal is mined there, and 98 per cent of its iron ore. Three of the country's six stell plants are located in the area and a fourth is under construction.

[3]The TVA's head office in the Tennessee Valley is in Knoxville. However, the DVC's head office is outside the Damodar Valley in Calcutta. One of the oldest and most persistent sources of friction between the DVC and the West Bengal Government is based on the Corporation's desire to locate its head office within the valley.

[4]Philip Selznick, *TVA and the Grass Roots*, Berkeley, 1953.

A number of schemes to control flooding in the Damodar river had been proposed, some as early as the 1850's, but the British Government expressed no interest until a flood in July 1943 severed the East India Railway and cut off the Fourteenth Army in Burma from its headquarters and supply sources. On the recommendation of the Bengal Flood Enquiry Committee that a multipurpose scheme similar to the TVA be undertaken, the Viceroy, Lord Wavell, made arrangements in in 1944 for a TVA engineer to visit India and plan a system of dams to harness the Damodar river.[5]

VOORDUIN'S PLAN

The engineer, W.L. Voorduin, completed his plan in July 1945.[6] But he had few data on which to base it. Stream flow records of the Damodar go back to 1901, but had been taken at one place only, Rhondia, and readings prior to 1932 were not considered reliable. Rainfall records go back to 1891. A peak flow of 650,000 cubic feet per second (cusecs) had been reported twice, in August 1913 and August 1935. The worst storm recorded in the Damodar Valley was the August 1913 storm which dropped 11.9 inches of rainfall in five days. However, Mr. Voorduin discovered that in 1917 in the neighbouring Sone Valley a rainfall of 18 inches had occurred in seven days and he was afraid that such a storm could center over the Damodar Valley as well. With this consideration in mind he decided that the Damodar storage system would require a design capacity to regulate the run-off from a 20 inch rainfall which, if it followed the pattern of the 1913 flood, would cause a peak flow of approximately 1,000,000 cusecs.

A major problem was the selection of dam sites. Because of the topography of the region it was impossible to locate a dam with adequate storage capacity below the confluence of the Barakar with the Damodar river.[7] Mr. Voorduin proposed two main dams to be as near the confluence as possible, Maithon on the Barakar, and Sanolapur (later rejected in favour of Panchet Hill a few miles away) on the Damodar river. Six other sites were selected because of their large storage capacity, the extent of the drainage area they would control, and

[5]For a more detailed account of the background up to 1945 see: Henry C. Hart, *New India's Rivers*, Calcutta, 1956.

[6]*Preliminary Memorandum on the Unified Development of the Damodar River.* This was made public only in abridged form, and not until 1948. The following discussion is taken from the abridged form. (Damodar Valley Corporation, Calcutta, 1948).

[7]The drainage area of 1,540 square miles below the confluence is sufficiently large to cause a flood if very large storms were to center over it. The flood damage from such a storm could be reduced by measures to increase the holding capacity of the river by building up the banks, but Mr. Voorduin's plan assigned only secondary priority to such measures.

their avoidance of coal fields. Two of these, Deolbari and Tilaiya, were on the Barakar river, one, Aiyar, was on the Damodar, and two, Bokaro and Konar, were on the Bokaro and Konar rivers respectively, both tributaries of the Damodar.[8]

The reservoir capacity of these eight dams would provide 2,900,000 acre feet of controlled flood storage and 500,000 acre feet of uncontrolled storage above the top of gates, enough if fully used and correctly timed to reduce a flood caused by a seven day 20 inch storm to a relatively safe flow of 250,000 cusecs in the lower valley.

On the basis of estimates of the expected pattern of inflows into the reservoirs which he worked out from stream flaw data, and on the basis of a set of instructions which he drew up for reservoir operations, Mr. Voorduin calculated that the reservoir system could control water flows in such a way as to irrigate 960,000 acres in the Lower Valley during the monsoon season, and 760,000 acres during the dry season.[9] A part of the plan, therefore, was to build a network of canals and channels to irrigate those acreages and to construct a barrage across the Damodar river between Burdwan and the confluence of the Damodar and Barakar rivers to divert water into the irrigation canals. In addition, water passing through the dams could be used to generate hydroelectricity. Hence Mr. Voorduin proposed the installation of eight hydro power stations, one at each dam, with an aggregate capacity of 200 megawatts (MW). Then, arguing that a system consisting of thermal plants as well as hydro stations could produce electricity at lower cost than a system limited to hydro stations, he recommended the establishment of a thermal generating plant with a generating capacity of 150 MW. Mr. Voorduin speculated that it might be possible for one of the main irrigation canals on the left bank of the Damodar river to be used for navigation purposes to reach the Hooghly. A number of subsidiary activities were proposed including domestic water supply, malaria control, silt and erosion control and introduction of fish.

In concluding his *Preliminary Memorandum*, Mr. Voorduin recommended that the Damodar Project be entrusted to an authority similar to the TVA, with power and duties carefully delineated by the three governments concerned.

The scheme prepared by Mr. Voorduin was examined and approved by a Technical Mission consisting of two American engineers with whom were associated two Indian engineers. At a meeting held in April

[8]The abridged version neglects to mention the location of the eighth dam.

[9]The main purpose of monsoon irrigation is to transform the unpredictable pattern of monsoon rains into a time distribution of water more suitable to the needs of crop production. The dams and reservoirs would be of only limited use in the years when monsoons arrive late because of the danger that the reservoirs may themselves be empty at that time.

1946 it was decided to appoint an Administrator pending the establishment of a properly constituted authority. The Administrator would proceed with preliminary designs of structures and advise the Central Government on all problems related to the project. B.K. Gokhale was accordingly appointed Administrator in May 1946, and he was succeeded in that post in October 1946 by S.N. Mozumdar who later became the DVC's first Chairman.

INVOLVING THE PARTICIPATING GOVERNMENTS

The next problem was to decide who would build the project. The principal difficulty was that most of the benefits would accrue to West Bengal, but the dams would all have to be built in Bihar, and that State would suffer the consequences of having to relocate over 100,000 persons whose homes and lands lay in the areas designed as reservoirs. All of the flood control benefits, and nearly all of the irrigation benefits, would be enjoyed by West Bengal, although the power benefits would be shared equally by West Bengal and Bihar. The solution adopted was to establish an autonomous corporation responsible to the Central Government but financed by contributions from all three participating governments. The formula written into the DVC Act for sharing costs is the following: flood control was to be financed equally by the Government of Bengal and the Central until the Centre's contributions reached Rs. 70 million (approximately US $ 9,333,000 at the present exchange rate), after which Bengal would pay all the costs. All three governments would share the power costs equally. Each provincial government would pay the capital cost of the works constructed exclusively for irrigation in its province, but the remaining capital cost, in particular, the share of the dams allotted to irrigation, would be divided among the provinces in proportion to their guaranteed annual offtakes of water for agricultural purposes. By this formula Bihar was to bear none of the costs of flood control; it was to pay for irrigation only in proportion to the irrigation benefits enjoyed in Bihar, and it was to pay only two-thirds of the cost of electrical power made available to Bihar by the DVC.

Since most of the proposed activities of the DVC were assigned by the Constitution of India to provincial jurisdiction (including water supplies, irrigation, canals, embankments and water storage, while electricity is a concurrent power) it was necessary for the provinces to pass legislation permitting a Central Government corporation to exercise these powers.

Finally, before the Damodar Valley Corporation could be established it was necessary for the legislatures of all three governments to pass the DVC Bill.

THE CORPORATION IS FORMED

The DVC Act passed by the Constituent Assembly of India on March 4, 1948 was the first development measure introduced after independence. As an illustration of the Bill's favourable reception by the Assembly one speaker predicted that the DVC would turn "a valley of death and destruction into a valley of prosperity and happiness."[10]

The TVA approach is evident in the following statement by N.V. Gadgil, the Minister of Works, Mines and Power, who introduced the Bill:

> Let us agree that when we entrust such a big sum running into Rs. 52 crores, practically handling the destinies of 50 lakhs (5 million) and their welfare, in fact it becomes a sort of administration by itself, charged with everything—their welfare, industralization of the area, agriculture, even municipal administration, everything that a government is expected to do....[11]

Referring to the resettlement of persons from the 100,000 acres to be submerged by the reservoirs the minister stated that "every person who will be uprooted from the soil will be settled, not in the same surroundings, but in better surroundings. He will exchange his hovel for a decent cottage, darkness for light, and fanaticism for faith".[12]

One member, however, regretted that "the technical papers, data, information and material on which this project has taken its final shape are not before the House."[13] There was no discussion of the economic feasibility of the project, the assembly simply accepted the Minister's assurance that the project would pay for itself many times over. In fact the Minister gave as estimated cost the extremely rough calculations made by Mr. Voorduin three years before and believed by some at that time to be half the real cost. Later there was to be much dissatisfaction with the DVC when the actual cost of the very projects Mr. Voorduin recommended turned out to be several times as great as Mr. Voorduin's estimate.

The foregoing discussion makes it clear that the DVC was conceived to be a new administration with jurisdiction carved out of the jurisdiction of existing governments. Furthermore, although the Minister's statement was surely an exaggeration there was undoubtedly the suggestion that the DVC was to be almost a government in itself, established to formulate and implement a development plan for a region. A foretaste of future difficulties may be had when one raises the question

[10] *Constituent Assembly of India (Legislative) Debates*, Vol. III, p. 1834.
[11] *Ibid.*
[12] *D.V.C. Bill Debates*, p. 1848.
[13] *Ibid.*

of what would happen to the DVC after the establishment of national development planning, and after the states developed their own facilities for undertaking the activities entrusted to the DVC. These difficulties do not seem to have been predicted in 1948.

DVC ORGANISATION

The 1948 Act prescribed that the Corporation (*i.e.*, the Board of Directors) consists of a full-time chairman and two full-time members appointed by the Central Government after consultation with the two participating state government.[14] The Central Government also appoints the secretary, who is the chief executive officer and the financial adviser, whose main function is to keep a close watch on costs on behalf of the Ministry of Finance. Before 1958 the board of directors seems to have undertaken the chief management functions themselves. Since 1958 the two members have been part-time, the secretary has been given more powers together with the additional title of general manager and two of the chairmen appointed since 1958 made their headquarters not in Calcutta but in New Delhi by order of the Government of India. The powerful financial adviser examines and comments on virtually every item placed before the board of directors and attends the Board's meetings, though he does not have a vote. He may refer any matter he wishes to the Corporation, and between 1951 and 1961 whenever there was a difference of opinion between the FA and the Board of Directors the FA was required to report that matter to the Central Government and ask for a decision.

The Corporation hires all other employees directly without intermediation by the Public Service Commission through which Central Government personnel are hired. The DVC's management personnel have in nearly all cases been taken from civil service posts within the participating governments according to the following pattern. The chairman is appointed from the Central Government, one member from West Bengal, the other from Bihar. The secretary may be from West Bengal or Bihar but the chief officers under him are appointed alternately from each state. The DVC is organised and operated in the same manner as a Central Government department, and its employees are subject to the same salary scales and almost the same service conditions as are in effect in the Central Government.

In the beginning there was some confusion as to how much independence the DVC enjoyed, but since those first years the Corporation's

[14]A copy of the DVC Act may be found in United Nations, ECAFE., *A Case Study of the Damodar Valley Corporation and its Projects*, Flood Control Series No. 16 Bangkok, 1960, Appendix 1, pp. 92-102.

statutory autonomy has progressively been more narrowly interpreted by the participating governments.[15]

TEETHING TROUBLES

It was decided to build the Damodar scheme in two phases. The first phase was to consist of:

1. Four dams—Maithon, Panchet Hill, Konar and Tilaiya—the four being thought sufficient to provide flood protection against the largest flood on record, that of August 1913.
2. An irrigation system that would be capable of supplying water to one million acres in the monsoon season and 300,000 acres in the dry season.
3. Bokaro Thermal Power Station with a capacity of 150 MW plus hydro stations at the four dams with a total capacity of just under 150 MW.

ENQUIRY COMMITTEE REPORT

The DVC experienced a series of troubles in the early years.[16] Originally it had wanted to contract out to private firms the jobs of designing and constructing the dams because, being new, it did not have suitable technical and construction organisations to do the work itself. But when the Corporation called for tenders for Tilaiya Dam it received only one offer, and rejected it because the rates were too high. Subsequently the Corporation built Tilaiya itself, but, because its engineers and consultants could not agree among themselves, it changed the designs several times, making the last change well after construction was under way. The DVC gave the design contract for Konar Dam to a French firm, even though its engineers had misgiving along the firm's ability at designing. The Corporation had found itself in a dilemma. The dam had to be finished in time to supply cooling water to Bokaro Thermal Power Station when it was ready, and this plant, being completely designed and built by an American firm, was expected to be finished on schedule. The few Indian firms capable or drawing up designs for Konar would take too long and it was thought that foreign exchange would not be available to hire a foreign firm of designers. Only after construction was started in March 1950 were the French firm's designs found to be defective. The new designs necessitated a new contract with the

[15]For a detailed discussion of this process see my doctoral dissertation *The Damodar Valley Corporation, op. cit*.

[16]The discussion of teething troubles is taken from *The Damodar Valley Corporation Enquiry Committee Report*, Ministry of Irrigation and Power, New Delhi, 1954. The chairman of this Committee was Mr. P.S. Rau who later became the DVC's chairman.

Indian contractors who had been hired to undetake construrction of the dam. By the time the new designs were ready it would have been extremely costly to replace the contractors, so the later had a bargaining advantage, and they used it to compel the DVC to agree to large increases in rates. The DVC was subjected to a barrage of criticisms from the participating governments for these concessions, and the matter was taken before an arbitrator. After examining the voluminous evidence presented during lengthy hearings, the arbitrator concluded that most of the increased rates were fair and just, but his decision was not reached until 1961, and in the meantime, partly because of the unhappy experience with Konar, the DVC decided not to contract out the construction of Maithon and Panchet Hill dams.

Some of the difficulties with Tilaiya and Konar might have been avoided if the DVC had hired a chief engineer before November 1950. It commenced its search back in 1947 and even sent its chairman and its secretary on different occasions to Amercia to interview candidates, but was not willing to pay the high salary demanded until it was clear that there was no other choice. Part of the delay seems to have been due to uncertainty as to whether the authority for hiring a chief engineer belonged to the DVC or to its controlling ministry.

The DVC's teething troubles were brought to the attention of the public by a report of Parliament's Estimates Committee,[17] and later by the Damodar Valley Corporation Enquiry Committee. The criticisms levelled at the DVC by the latter resulted in the resignation of the DVC's first chairman and first secretary. From that time on the DVC's public image started on a decline which has continued downward ever since.[18]

REHABILITATION

The DVC debate made clear that government intended to transform the painful task of resettling 100,000 persons into an opportunity to give these people a new and much better life. It was probably necessary for the other participating governments to make a generous offer to displaced persons in order to win Bihar's consent to the Damodar Project. However, the lofty hopes of the planners were never realised. Their intention had been to compensate displaced cultivators as far as possible in kind by giving land for land and house for house instead of cash. But the attempt to rehabilitate in kind failed almost completely.[19]

[17] *Fifth Report of the Estimates Committee of the First Lok Sabha,* New Delhi, 1952.

[18] This judgement is based on interviews with persons acquainted with the DVC and on editorials in the *Statesman* of Calcutta and other newspapers.

[19] Data on rehabilitation up to 1960 may be found in United Nations, ECAFF *A Case Study of the Damodar Valley Corporation and its Projects, op. cit.*, pp. 64-68.

Of the 343 houses built, only 161 were accepted. The families who occupied the house blocked up windows, made many other changes, and in a few cases tore the buildings down and rebuilt new structures out of the same materials. There were not many takers for land either. Up to 1964 hardly more than 5 per cent of all rehabilitated families had accepted land. Nearly everyone took cash compensation which apparently was soon dissipated. "Twice the Assembly of the West Bengal Government endeavoured to re-colonize these unfortunate people from the streets of Calcutta onto the farm lands, but without appreciable success."[20] The DVC has continued to the present its offer to rehabilitate in kind a nearly twice the cost of cash compensation.

No careful study has ever been made to explain why compensation in land was rejected, but the following reasons have been suggested by various observers. The ECAFE study states that "construction schedules were not in harmony with the transmigration of the uninstructed masses living in the river bottom lands".[21] Rehabilitation officers told me that politicians had moved among the people and persuaded them to reject land and houses in the expectation of doing better for themselves. Because the DVC has had to reclaim land from waste areas this land was of lower potential than the land which the displaced persons had formerly owned. But in such cases the DVC gave cash compensation to make up the estimated difference. Many persons may not have wanted to move as far away as the new villages, even though these were located less than 50 miles from their former homes. Those persons who possessed land partly in the reservoir areas and partly outside had readily understandable reasons for not moving. There seems to have been a serious failure of communications between DVC and local residents. The Corporation held meetings with villagers and five high school graduates circulated among them for a year, but the Corporation failed to learn what the villagers wanted.

SUBSIDIARY ACTIVITIES

The DVC's Soil Conservation Department seems to have had a little more success with villagers. Before 1960 the department had won the cooperation of farmers in 20 villages to consolidate their fragmented holdings and redistribute them in portions divided by lines running parallel to the contours of the fields. These activities, however, were abandoned after 1960 on the grounds that community development activities are more properly the responsibility of the Bihar Government.

Although the Soil Conservation Department seems to have under-

[20]United Nations, ECAFE, *op. cit.*, pp. 64-68.
[21]*Ibid.*, p. 64.

taken a large variety of activities it had not got far with any of them by late in the Third Five Year Plan apparently for reasons of lack of staff and resources. For example, detailed soil surveys had been completed for only 817 square miles by early 1964 although the department itself estimates that it is possible for a party of three men to survey ten square miles per month.

In the early years considerable emphasis was placed on developing subsidiary activities. Those started included: anti-malaria operations; development of commercial fishing in the reservoirs; promotion of tourism by providing boating in the reservoirs, parks and accommodations; free soil testing services for farmers; the training so far of several hundred soil conservation students from a number of states, and experiments on the utilisation of irrigation facilities at Panogarh Farm. A finishing workshop for hand-forged items, a cold storage plant for potatoes and other foods, and a lock factory were set up. However, the Rau Committee, and later the participating governments' conference of October 1954 argued that the DVC's subsidiary schemes should be confined to activities directly connected with the proper maintenance of the reservoirs and canals, *e.g.*, soil conservation, afforestation, welfare measures like anti-malaria operations, agricultural demonstrations and pisciculture, and recreation services at the reservoirs. All other activities were supposed to form part of the national plans and be undertaken by the state governments. Only at their request could the DVC undertake these activities and at their expense. A short time later the Government of India issued a formal directive to the DVC instructing the Corporation to transfer any subsidiary activity to a participating government if it requested it. Not long after, the finishing workshop, the cold storage plant and the lock factory were transferred to the state Governments in whose territory they resided. These steps were the first indication that the DVC's authority for regional development was coming into conflict with the emerging administrative structure in India. That structure was based on the elements of the national five year plans, the first of which began in 1951, and the five year plans of individual states, with the implementation of those plans being left respectively to the Central and state governments. In terms of this structure, the DVC was just a redundant administrative unit planning for and performing functions that normally belonged under State jurisdiction. In this conflict the DVC's regional authority gradually gave way. Within seven years of the DVC's establishment the process had begun of whittling the Corporation down from a regional development authority to an engineering organisation.

FLOOD CONTROL

By mid-1959 the dams in the first phase were nearly completed,

However, in October of the same year the Damodar river flooded causing very heavy damages. The flood which caused these damages was not as large as the target flood which the four dams were supposed to be able to control. The reasons why the flood system failed are:

1. Water levels in the reservoirs were higher before the flood started than the DVC's own reservoir operations guides indicated they should have been for that time of year, because the Corporation had decided to store an extra amount in order to send a flushing dose down the river to clean it out.
2. The reservoirs were not allowed to fill to their limits because the upper portions were still inhabited by villages and a pump-house of Sindri Fertilizer Corporation and because Panchet Hill Dam had not yet been completed.
3. There was a breakdown of communications during the flood between the DVC's Manager of Reservoir Operations, reporting stations upstream and West Bengal Government engineers downstream who reported on water levels. The communications breakdown had the result that water was released from the dams at too slow a rate in the early part of the storm.

The rather surprising fact that there were still many farms and families remaining withing the reservoirs in 1959 is attributable partly to the trouble encountered in rehabilitating those families who did move. At the time of the flood, the DVC apparently had no plans for moving the remaining inhabitants. This meant that if the DVC were to follow a policy of never flooding the property of residents in the reservoirs, 35 per cent of the existing flood storage capacity would have been wasted, and flood protection for the lower valley could be drastically reduced. During the 1959 flood water in Maithon and Panchet Hill Reservoirs did in fact rise far enough to flood some but not all of the houses and fields of the people living in the reservoirs, but from 1959 at least to 1964 the DVC's reservoir operations guides have forbidden their being flooded again.

After 1959 the DVC tried to persuade the participating governments to let the Corporation acquire the remaining property. However, after four years of procrastination by the two state governments the request was turned down by Bihar, and when these words were written, the people were still living in the reservoirs.

About the time that the four dams were completed, the DVC appointed the Augmentation of Water Resources Committee with membership comprising engineers from the Government of India, the Government of West Bengal and the DVC to investigate the need for further measures to improve and augment the Corporation's water

resource system, that is, to investigate whether the Corporation should proceed with phase two of Mr. Voorduin's plan. The Committee's main recommendation was the construction of a fifth dam which, if correctly used, would provide enough flood control to protect the valley against flooding from a 15 inch storm in five days and would store enough water to meet the foreseeable increase in demand for industrial and domestic water consumption. It was estimated that a 15 inch storm in five days would strike the valley only once in 165 years.

The DVC subsequently asked the participating governments for sanction to build the fifth dam. However, West Bengal opposed the scheme on the grounds that additional dams would so reduce the flow of water in the lower valley that there would be silting in the Hooghly river and other forms of deterioration would occur in other areas. After years of bargaining the fifth dam was finally sanctioned in 1964 to be constructed at Tenughat on the Damodar river, but since West Bengal refused to make any contributions towards its cost, the Government of Bihar is building the dam in Bihar alone to supply industrial and domestic water in the upper valley. The DVC is not participating in the project even though the dam is within the valley. West Bengal seems to have played a shrewd game in those years of bargaining, for it will presumably gain the benefit of some flood control when the dam is built, without making any contribution to the cost. But the consequence for the DVC of West Bengal's gain was that the Corporation was once more left out of a project that had previously been included within its jurisdiction.

It is illuminating to contrast the planning for new dams in the Damodar Valley with the planning stages of water projects in the United States. For water resource projects in the United States prepared by the Army Corps of Engineers, group interests as of 1951 were allowed to present their views to the Corps and to Congress at a minimum of thirty-two stages.[22] Planning of water projects in the Damodar Valley has been largely an intra-governmental process in which various affected government interests have participated but only rarely have the views of non-governmental interests been sought. Yet it is desirable that the views of residents of an area affected by water projects be carefully taken into consideration. It would be desirable, for example, for residents of the lower valley to realise that their flood protection would be reduced by approximately one-third if the DVC persists in the decision not to flood the properties of those persons still living in the reservoirs. However, it would be making too great a demand to expect the planning of water projects in India at this time to manifest the sophisticated democratic involvement found in the United States.

[22]Arthur Maass, *Muddy Waters: the Army Engineers and the Nation's Rivers*, Cambridge, 1951, p. 37.

WATER FOR INDUSTRIES AND IRRIGATION

A development unforeseen when the DVC was formed was the tremendous increase in demand for water for industrial purposes. By the early 1960s the annual quantity of water supplied to industries exceeded that used for irrigation, and the demand is expected to continue to rise very rapidly, especially since little has been done to encourage conservation of water in industrial use by recycling, air-cooling and other devices. Water for industries has been made available by reducing the size of the target area for dry season irrigation.

The present irrigation targets are 9,70,000 acres during the monsoon period and 50,000 acres in the dry season, the latter being a big reduction from Mr. Voorduin's 7,60,000 acres. However, these reduced targets have not been achieved. As recently as 1964 only 6,54,000 acres received irrigation water during the monsoon season and only 36,000 in the dry season. The main reason for the shortfall up to 1965 is that although main canals had been constructed, branch water courses and field channels had not been built, so that water could not reach all the fields included within the targets. The DVC, acting on the DVC Act's provision that it be a bulk supplier of irrigation water, constructed irrigation channels to blocks with an average size of 600 acres, and left it for the villagers or the retail distributor, the West Bengal Government, to construct channels within these blocks. Until the field channels are constructed the only way that water can reach distant fields is for it first to flow over fields nearest that outlet. Often roads, gullies, hills and other obstacles do not permit water to reach more distant fields. Moreover, farmers with fields nearest the outlets generally retain the water until they get enough, and let it pass to other fields only after a lapse of some time, so that even those distant fields that do receive water do not get it when they need it. By 1965 the villagers had undertaken almost no construction of field channels, partially for the above reason but generally because of inexperience with irrigation techniques, and the West Bengal Government had built none but instead kept urging the DVC to build the field channels. In 1959, following a Planning Commission's recommendation, the Government of India requested the DVC to dig channels to blocks of 150 acres in size. However, the DVC's response was slow, and by 1964 little had been done. The DVC's hesitation to improve the irrigation system both before and after 1959 was partly attributable to its expectation that West Bengal would take over control of the whole irrigation system. In 1956 both the DVC and the West Bengal Government agreed that it would be more economical for West Bengal to control the bulk supply of water as well as the retail supply. Accordingly, in the same year, West Bengal promised to take over the system. However, it procrastinated and did not assume control until April 1964, and then it did so only

on the condition that the Central Water and Power Commission take over management of the DVC's reservoir operations. Thus, two more important functions were taken from the DVC.

The DVC has at no time tried to form farmers cooperatives or devise related schemes to promote proper use of the irrigation water that it was supplying. Nor has the Corporation made any effort of a like nature with ultimate power consumers. In sum, with the possible exception of its soil conservation extension activities, mostly in Bihar, the DVC has not performed the role considered to be such an important component of the TVA model, that of helping final consumers to utilise the regional authority's products in the best manner, by forming co-operatives and so on. To some extent the DVC's behaviour may be justified by provisions of the Act which indicate that for both irrigation and power the corporation is to be bulk supplier and the two state governments are to be retail distributors. The Act does not explicitly prohibit the DVC from making an arrangement with ultimate consumers, and it does state that the state governments should consult with the Corporation before setting rates for power and irrigation water which are to be charged ultimately from consumers. In fact, the states have not consulted with the DVC about rates and there is little doubt that they would prohibit the Corporation from making any arrangements with ultimate power consumers. However, the Corporation might have tried to work more closely with irrigation users. Instead, the Corporation seems to have alienated many farmers by not adequately consulting with them before digging channels. Some farmers who were to have their fields split by irrigation channels obstructed workers trying to construct the channels by lying down on the ground where the new channels were to be dug.

NAVIGATION

The DVC extended the Left Bank Main Canal to the Hooghly river, installed 22 locks and prepared the waterway for navigation at a cost of Rs. 4,75,00,000 (approximately US $ 63,33,000) over and above the cost of constructing the irrigation system. The canal was supposed to be finished by 1958; however, it was not ready for use until late 1963, and it had not been used except for testing as of April 1965. The reason for the delay is that a large additional capital expenditure is required for the purchase of vessels to ply the canal, and for a rope-way to conduct coal, the main expected cargo, from the mines to the water, but there has been doubt whether it is feasible to make this expenditure since it would possibly still be cheaper to transport coal to Calcutta by rail. The investment in the navigation may have been a complete waste of money.

In June of 1958 a Navigation Enquiry Committee had recommended

placing the canal under West Bengal's management but as of 1965 takeover by the West Bengal Government of that portion of the canal which extended beyond the irrigation area was still under negotiation.

ELECTRICITY

The DVC supplies electrical power in amounts of 30,000 volts or more to the State Electricity Boards of Bihar and West Bengal for retail distribution and directly to industrial consumers who require power in such large voltages. It presently sells power to consumers within the valley and outside the valley as well. For example, it supplies much of Calcutta's power needs. Since 1962 the Corporation has exacted a price high enough to enable its power operations to yield a profit of 7 per cent on investment. This return is one of the conditions imposed in the DVC by the World Bank in return for granting loans for the construction of four of the DVC's thermal power units.

Between 1953 and December 1964 the DVC increased its aggregate power capacity from 154 MW to 604 MW; by mid-1965 the capacity was to be up to 729, and at that time two further 125 MW units were under construction.[23] The DVC's power system has at times been the largest in India, but for reasons to be explained its growth has fallen below that of other large systems.

At first the growth in demand caught the Indian Government off guard. Although the DVC had requested sanction to add another 50 MW unit to Bokaro back in 1953, the Government of India, dubious about its need, did not grant sanction until May 31, 1956. By mid-1957 the DVC's power facilities were under strain; in 1958 all consumers were requested not to increase their offtakes until further notice. In March and April 1961 there was a power crisis when three overworked generators of the Calcutta Electric Supply Corporation broke down at a time when the DVC's three newest thermal units were out of commission because of faulty design. The power shortage lasted until the first 125 MW unit at Chandrapura was commissioned in October 1964.

The Government of India raised no obstacles to the sanctioning of later additions to the DVC's capacity. But by the mid-1950s West Bengal and Bihar were making determined efforts to develop their own generating capacities with the result that, although they had agreed in 1947 to let the DVC produce power in their states, by the mid-1950's they reacted more as if the DVC were an unwelcome intruder. As a consequence, West Bengal opposed new generating units for the DVC causing delay in their being sanctioned, and managed to build its

[23]All units subsequent to those planned in the first phase have been thermal power units because they have been found to be cheaper sources of power in that region than hydro plants.

own thermal station less than five miles from a DVC thermal station within the Damodar Valley at Durgapur. It obtained the Centre's permission to expand this station against the will of the Planning Commission and the Ministry of Irrigation and Power, and only by the exertion of political influence. Subsequently, at the urging of the two state governments the DVC was forced to agree not to increase its sales of power to consumers outside the valley; later it was compelled to agree to withdraw existing supply as soon as the State Boards are in a position to serve these loads from their own power stations. In recent years the DVC has had to insist demands from the West Bengal Electricity Board to supply power from the Board's own stations to consumers within the Valley itself, hitherto a market reserved exclusively for the DVC.

REORGANISATION OF THE DVC

In flood control, irrigation, power and many other areas, disputes with the state governments, especially West Bengal, have arisen with increasing frequency, and the above case studies illustrate the manner in which these disputes have affected the DVC's operations largely by causing delays in the planning stages of projects. Although only a portion of the DVC's difficulties can be attributed to friction with West Bengal and Bihar it was largely as a result of this friction that the Government of India began in 1962 to examine schemes for reorganisation of the corporation. One scheme reported under consideration is the following: West Bengal would assume ownership and control of the navigation canal and other subsidiary activities in that state in addition to the irrigation system; Bihar would take over the DVC's Soil Conservation Department and other subsidiary activities in that state.[24] The Central Water and Power Commission would take over control of the dams and continue to operate the reservoirs. The DVC would then be reduced to a wholesaler of electricity, but the Central Government would want it to be wholly owned and operated by the Centre. If implemented, proposals such as these would bring about the total destruction of the 'TVA Idea' in the DVC.

ALTERNATIVES TO DVC

In the light of the DVC's experience it is useful to enquire whether an alternative form of organisation would have been more suitable than the corporation form. A substantial literature has been generated by the debate over alternative forms of administration of river valley

[24] *The Statesman*, Calcutta, December 7, 1963.

projects.[25] In India the prevalent form is the control board system. According to this system actual construction is carried out departmentally by the governments in the state in which the projects are located, each government contructing that portion of the project which lies in its own State. The whole project is built under the supervision of a chief engineer who in turn often functions as member-secretary of a high level control board comprising ministers and other very high level officials from the Centre and the state governments concerned.[26] The control board meets once every six or eight weeks, and its main functions are, firstly to expedite the making of high level decisions requiring the approval of all participating governments, secondly, to devise arrangements so that the project authorities can cut through red tape for such matters as making purchases and hiring personnel, thirdly, to coordinate the various components of the project. Since the boards do not have statutory legitimation, they officially have no power, but conventions have been adopted by some boards whereby the decisions taken by them are automatically implemented by the participating governments. Arrangements have been made in some cases for emergency decisions to be taken between meetings subject to later ratification by the boards. Each board is assisted by a whole-time chief accounts officer and in many cases by a financial adviser as well.

The research undertaken by the author was insufficient to permit a rigorous comparison of corporations and control boards; however, the foregoing discussion raises some issues which are of fundamental importance for such a comparison.

Under the control board system the various activities are operated by the participating state governments. However, under the corporation approach, the corporation operates the activities. For the DVC it was shown above that this has led to problems of overlapping jurisdiction. These problems have been sufficiently serious that it appears now that it might have been better for the state governments to have performed

[25]For India the following sources examine the topic: *Fifth Report of the Estimates Committee of the Lok Sabha*, New Delhi, 1951-2; *Report of the Damodar Valley Corporation Enquiry Committee* New Delhi, 1954, Chapter 8; Sudhir Sen, "The Future of Public Corporations" in Supplement of *Capital*, December 17, 1953; Henry C. Hart, *New India's Rivers*, Calcutta, 1956, Chapter 9; Papers of the Fourth Irrigation and Power Seminar held at Hirakud, Orissa, January 14-16, 1957; ECAFE Flood Control Series No. 19, *Proceedings of the Fourth Regional Conference on Water Resources Development in Asia and the Far East*; A.H. Hanson, *Public Enterprises and Economic Development*, London, 1959, Chapter 10.

[26]For detailed descriptions of this form of administration see: ECAFE Flood Control Series No. 11, *Multiple Purpose River Basin. Development in India, Burma and Pakistan*, Bangkok, 1956 and a paper presented at the Fourth Irrigation and Power Seminar held at Hirakud by the Ministry of Irrigation and Power entitled "Control Boards for Major Multi-Purpose Projects" (mimeo).

many of the DVC's functions right from the start. As far back as 1956 the DVC and the participating governments all believed that it would be more efficient for West Bengal to control the DVC's irrigation system than for the DVC to do it. The discussion held earlier indicated that with two organisations involved it was possible for each organisation to shirk its own responsibility and simultaneously to blame the other authority for any shortcomings in the system. Matters such as the location of field channels and outlets, the timing and quantities of water supplied to particular fields require close coordination between the builders of the irrigation system, the operators, the state agencies responsible for agriculture and the users and this coordination would be facilitated if the state government were fully responsible for the irrigation system. The state government would have more of an incentive to prevent stealing of water by farmers near main channels if it was responsible for the irrigation system. Before the transfer, the DVC was paid for the supply of water on the basis of acreage irrigated as measured by the Government of West Bengal. In that situation both the government and the farmers had an incentive to understate the area receiving water. With West Bengal in charge, if collections do not suffice to meet operating costs that government has an incentive to raise the rates, which was not the case when the DVC was in charge.

Similar arguments can be made that the Navigation Canal should be under the control of the West Bengal Government, and were in fact made by the DVC Navigation Enquiry Committee. Soil conservation, promotion of fishing, agricultural extension and promotion of industries can probably be handled at least as efficiently by the state government as by the DVC. At present, work done by the DVC in its subsidiary activities runs the risk of unnecessary duplication with the much larger programmes involving the same activities run by the state government.

Power might be more economically produced in West Bengal and Bihar by a single inter-state system with giant thermal power stations. The DVC's system might have become such a grand system, but it was not allowed to. Alternatively, if the DVC had never been granted the power to produce electricity, the power needs in Bihar and West Bengal would presumably be served completely by the power stations of their respective state electricity boards, and if these were carefully linked together and with outside grids the reduction in efficiency below that of the single system might not be great. The present arrangement of three power systems is probably the least efficient solution, partly because there would be less scope for establishing more economical giant thermal power stations and partly because of time-wasting disputes between the three agencies responsible for power in the region. Even if the DVC could be reduced to a completely centrally owned corporation

whose only function would be the supply of electricity there would very probably still be disputes between the DVC and the two state electricity boards because the DVC's jurisdiction overlaps those of the two state electricity boards. This competition seems to be the reason why the reorganisation discussed earlier has not been achieved. The Central government wants the DVC to continue as a power organisation; the state governments are reported to want the DVC to be disbanded completely and its power producing facilities given to them.[27]

The above discussion did not consider the problems of the hydro-stations located at the dams. The construction and operation of these are closely related to the construction of the dams and operation of the reservoirs and so there are grounds for arguing that the authority which controls the dams should control these hydro-stations as well. If the DVC's power system had been restricted to hydro-stations the dispute with West Bengal over who should build new thermal plants would have been avoided.[28]

The only functions in the operating stage that seem to belong more logically to the DVC than to the state governments are: (1) reservoir operations, and (2) operations of the hydro plants. Apparently the West Bengal Government did not like the idea of the DVC operating the reservoirs, and so reservoir management is now under the management of the CWPC. In any event, these functions do not require a government corporation for their operations. Hence, is it worthwhile to establish a government corporation for the construction stage only? If not, then a government corporation may not have been a suitable form of administration for the DVC.

NEED FOR INDEPENDENT AUTHORITY

The Corporation, however, solved one problem that would have caused great difficulty for the control board system, that is, that the dams had to be located in Bihar while almost all the benefits of the dams go to West Bengal. As mentioned above, under the control board system each state builds that portion of the set of projects located in its own state. But it seems unlikely either that Bihar would have consented to build the DVC dams for the West Bengal Government, or that the West Bengal Government would have to let Bihar build the dams. But both states did agree to an independent agency, the Damodar Valley Corporation.

[27] *The Statesman*, Calcutta, December 10, 1963.

[28] Since the total installed capacity at DVC hydro power stations is only 104 MW compared with the total DVC capacity of over 1,000 MW by 1967, difficulties of coordinating the offtake of power from the two sources should not generate much concern even if they were under separate ownership.

Perhaps the control board administration could have been adopted with the proviso that design and construction of the dams be contracted out to private firms. The DVC experience suggests that there were not any Indian firms in existence before the mid-1950's capable of handling the biggest DVC dams, so the contracts would have had to be given to foreign firms. But this solution has a drawback also. Under the DVC the dams were built primarily by Indians, and in this way their construction of the dam served an important educational function. Moreover, the DVC experience also suggests that unless the planning and construction of the dams were placed completely in the responsibility of a single supervising contractor it would be necessary to have a permanent strong and controlling authority with a large team of senior engineers and supervisors to hire and supervise the contractors.

Thus, some sort of strong, independent authority seemed to be necessary to build the DVC projects, unless the Central government offered to build them itself. A government corporation is such an agency, but if the participating governments were right in choosing a government corporation they may have erred in giving that corporation too many functions. But if some functions were separated from the corporation two problems would have arisen: (1) the need for some supervisory body like a control board at a more senior level than the corporation to coordinate the various related projects; and (2) the corporation might not have been able to justify its existence after the dams were built. Whether, in these conditions, a corporation would be the best form of administration, or whether some other type of authority would be preferable, is a question that cannot be answered here.

There are yet two further considerations. In its early years the DVC may have derived important benefits from being a pioneer organisation conducting what was viewed as a promising experiment in development. It may have attracted unusually high calibre personnel and, in spite of teething troubles and delays, it may have undertaken its projects earlier and more competently than the governments of West Bengal or Bihar would have if they had been given responsibility for some of the DVC's projects.

Secondly, if the DVC had been deprived right from the beginning of all major functions except for building and operating the dams and the hydro stations, this solution would not in itself have prevented the 'teething trouble', the problem of rehabilitation, the 1959 flood, the failure to acquire all the property in the reservoirs, or the delay in sanctioning the fourth unit at Bokaro. It is true that if the DVC had not been allowed to build thermal power stations, the competition with West Bengal and Bihar for the right to build new thermal plants would have been avoided. In addition, if West Bengal had possessed the irrigation system from the start the irrigation potential might have

been achieved more rapidly but yet irrigation projects throughout India have fallen far short of their potential in the early years of operation.[29]

One possibility which has not been considered hitherto is to have enlarged the DVC's power and autonomy in the beginning, to have given it, for example, a monopoly of generation of electricity in West Bengal and Bihar, full powers over irrigation within the Damodar Valley, and much more autonomy from the participting governments. However, it is doubtful whether this alternative would ever have been politically feasible, and secondly, whether it would have prevented wasteful disputing between the DVC and the two state governments.

CONCLUSION

In conclusion, it is quite possible that there may not have been any superior alternative to the original DVC and the loss of some of the Corporation's functions does not imply that the Corporation has failed or even that these functions should not have been given to the Corporation originally. But whether it was wise or not to establish the Corporation, it is sad to see this enterprise that once had great hopes and that has likely had an enormous and beneficial impact in eastern India now viewed by many people as a failure, treated by others more powerful than itself as an unwelcome intruder in their jurisdictions, drained of independence by all three participating governments, left helpless to defend itself, a passive observer of its own dismemberment.[30] □

[29]A.O. Hirschman suggests several reasons why it may not be possible to realise the full potential on irrigation projects until some time after the main channels are constructed even in the absence of jurisdictional difficulties. See his *Development Project Observed,* Washington, The Brookings Institution 1967, pp. 69-71.

[30]That the Corporation has been able to survive at all in the face of encroachments by the participating governments is, as Professor Hirschman suggests, probably due to its ability to assemble quite early an experienced electrical engineering organisation, which, with the aid of foreign contractors, established one of largest power generating systems in India. (A.O. Hirschman, *Development Project Observed, Op. cit.*, pp. 49-50). The magnitude of the expansion of the DVC's thermal generating capacity was probably not foreseen in the 1940s, and it occurred during the very period when the Corporation was being deprived of other functions, but it has been resisted all the way, and that resistance, as pointed out on pages 28 and 29 seems to be seriously impeding future growth.

Management of Public Undertakings in India*

M.G. Shah

A COUNTRY benefits a great deal by the public sector enterprises only when they are managed efficiently. It loses a great deal, on the other hands, if scarce financial resources and scarce managerial talent are wasted. In India, great enthusiasm is seen at the time of allocating resources to the industrial and commercial projects in the public sector but the bitter truth is that sufficient attention is not paid to the efficient management thereof. Millions of rupees have been invested in public sector projects but unfortunately their performance is far from satisfactory. The Neyveli Power Project in the South, Heavy Engineering Industries Corporation at Ranchi, Steel Plants at Rourkela, Bhilai and Durgapur, etc., are some examples. The poor performance of some of these can be attributed to inadequate assessment of demand but most of them could run efficiently and earn sizable profits if certain problems could be solved immediately. The author proposes to examine the most important of these problems in this article.

The success of any enterprise, whether in the private or public sector, depends upon two things: (*a*) organisation and structure of the enterprise, and (*b*) quality of its personnel. The organisation and structure of the enterprise should be conducive to its efficient management and the quality of its personnel should be the best available. Both these things are necessary. A badly designed organisational structure presents obstacles to high performance no matter how hard working and able the managers are, and *vice versa*, if the organisation and the structure is excellent, it cannot be run efficiently if the quality of management is not of the required standard. Therefore, the problems of the public sector enterprises may be examined with respect to these two areas.

ORGANISATION AND STRUCTURE

The organisation and structure of a large number of public sector

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enterprises in India is not generally conducive to efficient management. The main drawbacks in this regard are discussed in the following paragraphs.

Board of Directors

The Board is appointed by the appropriate government, *i.e.*, either the Central or the State or by both. Generally, the practice is to appoint such a Board for a term of three to five years. In the private sector, the membership of the Board remains more or less unchanged; though there is a provision for retirement of a certain proportion of directors at certain intervals but they are eligible for re-election. Continuity in policy making is ensured in the private sector. But this is mostly not so in the public sector because of the short term for which Board of Management is constituted. Again, because of its short term, the Board is not generally able to devote much attention to evolving basic policies on a long term basis. It would generally be interested, in short term solutions by way of expediency. It would not be interested, for example, in changing the recruitment procedure, in adopting modern methods of management like Industrial Engineering in modernisation and rationalisation of various procedures, etc. Again the Board of Directors consists of officials and non-officials. Non-officials are largely on a part-time basis. They are mostly politicians. It cannot be said that they possess the required outlook for managing an industrial or commercial undertaking efficiently. Their qualifications and experience, in many cases, would not entitle them to hold important positions in the top management of an enterprise with the result that there is a wide gap between the knowledge and outlook of the full-time permanent managers and that of the part-time non-official politicians who are appointed for a short time. This gap is a great handicap in the public sector against implementation of new ideas and modern methods of management. It is true that persons having close touch with the people and doing social service in the society can bring their experience and knowledge to bear upon the policy decisions, but this is not enough. What is also required is the correct outlook and a scientific attitude towards management.

Top Executive

Similar are the difficulties with respect to the top executive. The managing directors or the general managers are normally appointed from outside the enterprise. Mostly they come from the Indian Administrative Service. It is true that many of them are intelligent and hardworking and it is not difficult to train them in the art of management of public sector enterprises. Most of them are already managing men in their respective spheres of duty and those who have the correct aptitude and scientific outlook can learn without any difficulty the various facets

of management in a public sector enterprise. The main problem here is that they are appointed in public enterprises only for a short period. They are withdrawn at the sweet will of the appropriate government. In majority of the cases, by the time they know the problems, get acquainted with modern management techniques and begin to implement the same, they are transferred to other jobs. The continuity is lost. The Board of Management also changes periodically. The frequent transfers of the managing director or the general manager further aggravates the situation. The creation of the Industrial Management Pool in 1957 was meant, among others, to remedy this deficiency. But, as very ably analysed by Dr. Paranjape of the Indian Institute of the Public Administration in his study of the Pool, the scheme has not succeeded for several reasons, an important one being rigidity of government approach.

In certain cases, the chairman is a politician or a social worker and is part-time. This leads to a very difficult situation especially when the chairman is aggressive in nature or politically powerful. The chairman feels that he is the head of the organisation and, therefore, worries about details of the functioning of the enterprise, thereby rendering the chief executive officer ineffective. It is the latter who is the executive head of the enterprise. To quote Mr. M.D. Bryce: "He must have the authority as well as the responsibility of his position. He must be free to manage or he cannot be manager. Chosen for his competence as a business executive as well as a technician he must make his own decisions within the general policy directives of his board. Having the power, he can then be held responsible for the results of his actions and for the total success of the enterprise. Within broad limits, he should be allowed to adopt any form of organisation he feels will help him secure the results prescribed and to hire managerial, technical and other staff he feels are justified. He should be able to organise the work and the workers in the manner he feels will bring the best results. As owners, government cannot afford to give a general manager less than adequate power. To do so is to relieve him of the responsibility for results and the secret of industrial control and the achievement of industrial success is that the general manager must be accountable for results. If there is failure, there must be no doubt as to whose fault it is. Likewise, if there is success the manager is entitled to claim the credit and should be rewarded generously for his achievement."[1] I entirely agree with these observations of Mr. Bryce. However, these principles are hardly understood by a part-time politician Chairman.

Objectives

The next problem is of objectives. In the private sector, the objec-

[1]M.D. Bryce, *Industrial Development: Guide for Accelerating Economic Growth*, New York, McGraw Hill, 1960, pp. 72-73.

tive of everybody from top to bottom is only one and is known to everybody. This objective is making maximum profits. Everybody strives his level best to achieve this objective. This is not so in the public sector. There is more than one agency to judge the public sector enterprise. In addition to the Board of Management, consisting of mainly part-time non-officials, there are the members of the Legislature, the Council of Ministers, the audit authorities, the legislative committees, the Fourth Estate and the people at large who judge the success or otherwise of a public sector enterprise. Every one of them has different standards of judgment, which again change from time to time. Many times judgments are pronounced by a layman without appreciating properly the facts of the case. Today, in a large number of cases, the criteria to judge the success or otherwise of a public sector enterprise are not clearly defined in specific terms and accepted as such by all the different agencies of government. The emphasis placed by a governmental or legislative authority on a particular aspect often leads consciously or even unconsciously the top management to direct their actions towards achieving those weak points which were stressed at a given time. To illustrate from a case of a State Road Transport Corporation, a member of the legislature complains against the cleanliness in a particular bus station and judges that the enterprise is not functioning well. Or, a fatal accident happens near the town of another MLA, who concludes that something is wrong with the corporation. Again, if a special bus is not given to the students of a school or college, the Press feels that the corporation is not satisfying the needs of the students and is, therefore, inefficient. Though these points are individually important, the standards of judgment should be more basic and real. Some of the objective criteria which should form the basis for evaluating the performance of a State Road Transport Corporation may be cited: fleet utilisation, vehicle utilisation, but staff ratio, KMPL (kilometers of journey per litre), tyre mileage, cost per kilometer, earnings per kilometer, net profit, rate of accidents and breakdowns, percentage regularity in arrivals/departures, the number of complaints per lakh of passengers, etc. Absence of identity of objectives to judge the success or otherwise of a public sector enterprise greatly handicaps in motivating the top management to utilise their energy fully to achieve definite ends.

Government Control

The next problem is with respect to achieving the synthesis between the required governmental control and the much-needed autonomy of a public sector enterprise. Though the need for autonomy is conceded in principle by the government, *in practice* the trend has been towards greater governmental control and supervision. Parliament has also, in recent years, become more alive to public accountability of the state

enterprises. On the other hand, the public sector enterprises need and want almost complete autonomy in their functioning. This continuous battle is being fought, particularly since the beginning of the second plan. There are a number of reports suggesting various solutions to this vexed problem but nothing substantial has yet been done.

Government, whether at the Centre or in a State, is accountable to the people through the legislature for every rupee spent out of the consolidated fund of the Centre/State. The Public Accounts Committee and the Estimates Committee (now, however, the Committee on Public Undertakings in the case of the Centre) examine respectively the expenditure and working of the public sector undertakings on behalf of the legislature. Legislative control over public sector enterprises is also exercised through questions, motions of various kinds, debates on the Demands for Grants, discussion on annual administrative reports of the ministries and the individual reports of the various public sector undertakings, etc. The requirements concerning audit also act as a control mechanism.

Government control is exercised through the appointment of Board of Directors at periodical intervals, appointment of the top executive, the requirement of obtaining government sanction with respect to creation of posts carrying pay above specified financial limits and determination of the pay structure and its revision, approval of the budget, fixation of prices of goods/services, giving of directions in a number of fields, such as labour relations, provisions of amenities, etc. Further, in many enterprises, top managers cannot take decisions on certain issues without the concurrence of the financial advisers.

Let me again quote Mr. M. D. Bryce. He says:

> From ministers on down, those in government who control industrial enterprises either directly or through some facet of the administrative process, usually have an enormous reluctance to surrender any part of their connection with the projects. They feel that close control and supervision are necessary to secure the results they would like, but can never attain under a system of rigid controls. They feel that by enforcing civil service pay scales on an industry, they are preventing unfair discrepancies in earnings, when actually, what they are doing is preventing the industrial projects from getting the people they need. They feel that by making the government purchasing agency procedures apply to an industrial plant, they are saving money; actually what they do is delay purchasing and frequently force the project to lose a market advantage. They feel that, by going over current project budgets, and even by reviewing every voucher before payment can be made, they are safeguarding public funds; actually they are ensuring the loss of

> public funds in deficits made inevitable because they have killed the initiative and commercial responsibility of the managers of the enterprise.
>
> The real control available to the government as an owner of an industrial plant is the same as that for the shareholders of a private industrial enterprise. It lies in the appointment of competent directors who in their turn will appoint a capable general manager and establish sound policies to govern the conduct of the business. The test of whether the control has worked lies for the government, as for any owner, in a regular periodical review of results. Such a review is based upon an examination of adequate and timely annual reports and financial statements and the report of the auditor. The owners have the further right to question the general manager and to call him to account for any shortcomings of his stewardship. If results are not satisfactory, the ultimate remedy is to change the directors and for them it is to change the general manager.
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> Between the times when the reports of the enterprise are examined and the general manager is questioned by the minister in charge or by the cabinet representing the public, control rests in the hands of the directors. They should generally be appointed by the minister in charge and should be removable by him for cause at any time. They should be chosen for their business experience and their ability to make a success of a commercial venture. They should then be given the freedom to run the business. Of course, this should be in line with any general policy directives the government wishes to establish through the cabinet. The directors should limit their participation in the enterprise strictly to policy matters and avoid any interference in the routine management of the business. They should have to approve any large capital expenditure and should decide important questions of purchase, wage or sales policy and other basic policy matters. Beyond that they should leave the manager alone so that he can manage. He should attend their meetings to answer questions and explain his problems. The chairman of the Board, like other directors, should have no executive powers. As far as the enterprise is concerned, the chairman and the directors should be part-time officials. If directors are full-time officials they are almost certain to get into matters of administration which should be left to the chief executive.[2]

The above remarks of Mr. Bryce equally apply to the conditions of India where directors are part-time both non-officials and officials *ex officio*. Where, however, the Board of Directors are appointed from

[2]M.D. Bryce, *op. cit.*, pp. 71-72.

within the organisation, as is very often the case in the USA, then the President and Vice-Presidents would be full-time executives and they should have full executive powers.

It is my impression that the quality of top people in the private sector is not generally in any way better than that in the public sector, but it is the organisation and its structure that is largely responsible for the marked differences between the performance of a public sector enterprise and that of a well managed private enterprise. In the latter, the middle and top managers have not to worry about the Public Accounts Committee or the State Government or the Accountant General, nor are their hands tied in taking decisions in accordance with the wishes of the Financial Adviser. As the objectives are very clear, the managers in the private sector take correct and speedy decisions and show results. This does not happen in the public sector because of the difficulties mentioned above. It is not impossible to arrive at a formula which will satisfy the needs of the constitution on the one hand and the demands of efficient management on the other. The main handicap in this regard is the rigidity of outlook and reluctance to part with powers by those who are sitting in the Secretariat.

QUALITY OF PERSONNEL

The other set of problems concerns the quality of personnel. The speed of progress of a developing country depends upon the availability of: (*i*) physical or natural resources, (*ii*) financial resources, and (*iii*) human resources. However, the human resources are more important because the optimum exploitation of both the natural and financial resources depends on the quality of the human resources. Similar is the case with an industrial enterprise. Quality of human resources in an enterprise refers to quality of the top executive, middle managers, and the lower rungs at the plant and office levels. The public enterprises are today experiencing several difficulties in recruiting and retaining personnel of good quality.

Recruitment

Article 16(1) of the Constitution of India directs that each citizen shall have an equal opportunity in matters of public employment. Hence direct recruitment to regular vacancies is mostly done through a public advertisement. It is generally desirable to recruit through advertisement as this ensures not only an impartial selection but also a large market for selection. But it works as a handicap in cases where there is an acute shortage. When the management sometimes locates an appropriate person, it cannot straightaway employ him on a regular basis and by the time the advertisement is issued, that person finds employment elsewhere. Temporary appointments do not serve the purpose. Again,

certain directives from the government for giving preferences and concessions to certain classes of the people tend to dilute the quality of selections. Scheduled castes/tribes, backward classes, displaced persons, handicapped persons, refugees from Tibet, East Africa, etc., persons who went out of business because of gold control, etc., are entitled to such preferences and concessions. The private sector is not obliged to give such preferences at the cost of efficiency. The non-official Board members are often associated in recruitment to various levels in public enterprises. Influence from political and social quarters and even from civil service personnel at the higher levels also comes into play to the detriment of the quality. The last, but the most important, point is that the present low pay scales can attract only the average type of persons. In a mixed economy, there is a common employment market both for the private and the public sectors. There is a shortage of high quality personnel, especially of the managerial cadres, in the country. There are no ceilings on emoluments attached to the posts in the private sector. Government keeps a strict control, in many cases, on the fixation and revision of pay scales in public enterprises. The comparison is generally made by the government with the pay scales of the civil service and not with those of the similar enterprise in the private sector. Giving good scales of pay is considered sometimes against the proclaimed aim of a socialistic pattern of society. Such an obsession affects adversely the very realisation of that aim speedily. The establishment of a socialistic pattern of society will rest largely on the success of the public sector enterprises in the country. The success of the latter is considerably conditioned by the quality of the top and middle managers which, in turn, greatly depends, amongst other things, upon the emoluments. If the differences in the emoluments of the private and public sectors continue to be as large as at present, the public sector will have to satisfy itself with the average quality of personnel.

Promotion

Promotion rules are generally framed on the lines of those meant for the civil service. Considerable weightage is given to seniority. Job descriptions, performance standards and objective appraisals of the individuals on the basis of performance are relatively absent. There is generally no sound personnel policy. Sometimes outside influence plays an important part in promotions. To promote a really capable person, out of turn, is to invite accusations of favouritism and the risk of an enquiry and is, therefore, difficult. To grant advance increments is equally difficult. How can then one think of better methods of reward like profit sharing or salary determination on the basis of performance which operate in an efficiently managed private enterprise?

Personnel Development

The most crucial need today, I believe, is to evolve a new, positive policy of personnel development at all levels. Planning and implementation of development programmes and projects call for initiative, drive and achievement-mindedness of a high order. These qualities can develop and flourish only if there is a clear-cut, bold policy of personnel development through suitable schemes of training, career planning, annual appraisal of individual performance, and well-defined incentives.

However, there are at present a number of obstacles to such development of the personnel in the public sector. The traditional outlook based on mistrust continues to plague its functioning. An officer, for example, is not judged by the results he achieves over a period. His each and every decision is scrutinised by various agencies including Auditor-General or the Comptroller and Auditor-General. An officer would have taken a thousand decisions of which 999 may have been correct and may have brought good results. But if he has committed a bonafide mistake in the remaining one case, he would be asked to explain and may be charge-sheeted. Such old colonial practices based on mistrust should be thrown overboard immediately and boldly, and replaced by positive tests of overall achievements based on periodical appraisals of the individuals. Because anti-corruption or vigilance enquiries are held in cases where bonafide mistakes are committed, nobody likes to take the responsibility for taking speedy decision and instead, the buck is passed higher up. This saps initiative and retards personnel development and thereby affects efficiency. This does not mean that malafide mistakes also should go unpubished. Because one is dealing with public funds, a person who has committed a malafide mistake should be punished very severely and if necessary, imprisoned. But watch and vigilance on and audit of every decision is fatal to the success of an enterprise. This equally applies to the efficient conduct of government business. Again, delegation of powers to the appropriate levels helps develop the personnel and contributes to speedy and correct decisions, and, therefore, ensures efficiency.

As observed earlier, the reluctance to part with powers begins from the highest level, *i.e.*, the government itself. Minister, secretariat officers, the Boards of Directors, the chief executives and middle managers are all afflicted with this malady. This is largely because nobody is responsible for the final results. The chief executive officer of an enterprise should be held responsible for the results and he should be sufficiently armed with powers for the purpose. If he is responsible, he will immediately delegate responsibility and powers at the appropriate levels in the enterprise for obtaining the maximum efficiency. In absence of a clear policy of development of personnel through delegation, of judging them by the results through periodical individual appraisals on the basis of mutually

agreed targets, of career planning and of training, where necessary, not only that the existing personnel do not develop and grow but the promising ones even leave the organisation.

Discipline

Some is the picture with respect to discipline. Labour laws apply equally to both the private and the public sector. Trade unions are mostly affiliated to political parties. The state governments belong to one or another political party and the trade unions associated with that party try to bring political pressures to bear upon individual cases of discipline. Public sector enterprises cannot, therefore, many times enforce discipline even in cases where guilt is proved. Though this applies also to the private sector, enforcement is less difficult there. Again, outside interference contributes to dilution of general discipline. Instances are not wanting where the guilty persons have been reinstated on grounds other than merit.

For all these reasons, good quality of persons cannot be recruited nor retained in a public sector enterprise.

NEED FOR NEW AND DYNAMIC APPROACH

For a country like India where a large proportion of national income in the non-agricultural sectors is expected to be generated through public investments, it is absolutely necessary that the public enterprises should be managed efficiently and they should earn sizable profits. More than 3,000 crores of rupees have been invested during the three plans in the state industrial enterprises but the returns therefrom are disappointing. Many of them have incurred great losses, instead of making profits. This criminal wastage of national resources should be stopped forthwith. The rate of economic growth has been low in spite of heavy investments, largely because of inefficient management of State enterprises. On the other hand, population is expanding very rapidly. Per capita real income is almost stagnant. The expectations of the people have been raised very high. If the rate of increase in the real per capita income is not satisfactory in the next few years, it is feared, even the political stability of the country would be endangered. The problem thus assumes national urgency and immediate steps need to be taken on a war footing to put the management of industrial enterprises on a sound basis.

On the whole, it appears that remedies are not difficult to find. It is not that the basic problems are not known to the authorities concerned. Literature in the form of reports of several committees both on public sector enterprises in general and on the performance of individual enterprises is not inadequate. The present Prime Minister of India has time and again emphasised the need of efficient management of these enter-

prises. However, at the political level, the important political parties, the ministers and members of the legislatures, especially those who are members of the Estimate Committees, Public Accounts Committees and the Committee on Public Undertakings need to re-shape their attitudes and to look at the current problems of public sector from a more objective and achievement-oriented perspective. At the executive level, secretariat officials, administrators, economists, accountant-generals and others both at the Centre and in the States dealing with public sector projects also need a similar change in their outlook.

Next in importance is the problem of recruitment and development of good managers. Every public sector enterprise should pick up brilliant youngmen and build them up so that middle and top management posts are ultimately filled up from within the enterprise itself. This may take quite some time. For the immediate future, therefore, a list of persons who have shown high managerial competence—whether from the IAS or outside—should be prepared and those who are willing should be permanently transferred to the appropriate enterprise. If a sufficient number of such talented and willing persons to work as managers is not available, then 'medium term' deputations including those from the private sector may be the only alternative. The present practice of deputation of any officer from IAS or any other service, for a short period should be totally abandoned. These deputations should be confined to the transitional period till the enterprise builds its own managerial competence. In order that competent managers, adequate in number, are trained and developed, the approach outlined below should be adopted. Written orders embodying this approach as a policy should be issued by the government and they should see to it that the approach is followed by all concerned.

(*i*) The enterprises should be run on the basis of trust. Practices inherited from the British days and built on mistrust should be discarded boldly and immediately.

(*ii*) Anybody who has proved dishonest or has taken a malafide decision should be punished severely no matter how high he may be.

(*iii*) No official of a public enterprise should be subjected to suspicion or penalised for bonafide decision or advice. It should be the duty both of the government and the top management of an enterprise to create an atmosphere which promotes fellow feeling, freedom to express frankly one's own opinions, delegation of powers to young middle managers, etc. Such a positive climate will help develop with great speed the human resources which are vital and which play an important part in maximising the exploitation of physical and financial inputs.

(*iv*) A bold policy of regular and systematic recruitment and training, reinforced by a career planning and development policy, should be evolved and implemented for injecting young blood at appropriate levels.

(*v*) There should be a well thoughtout scheme of apprasial of individual performance, based on pre-determined targets or yardsticks; and salary determination, promotions, transfers and training should be based on such appraisals.

(*vi*) Salaries should be allowed to be fixed by the enterprise according to market conditions. The disparity between the salaries of the public enterprise personnel and those of their counterparts in the private sector should not be so large as to hold back the talented personnel from joining the public sector undertakings.

(*vii*) The Board of Management should be a permanent body, with one-third of its members retiring every 2-3 years but re-eligible for election. The directors should be experts in man-management as well as in the sector to which the public enterprise relates. The number of members should be the minimum possible. The chairman should be a full-time top executive.

(*viii*) There must be identity of objective criteria for a given period to judge the efficiency of the enterprise. All the concerned agencies, such as the government, the legislature, the Accountant General, the Board of Management and the Press, should be taken into confidence to the extent possible in evolving these criteria. If the performance of any public enterprise does not come up to such standards, the top manager should be taken to task. Generally speaking, like the private enterprise, the public sector enterprises should be able to pay taxes to the government, to provide for the required depreciation and pay off the debt.

(*ix*) Public enterprises should be able to fix the prices of their products except in case of public utilities where the government is obliged to protect the interest of the consumers.

(*x*) As far as possible, the audit of public enterprises should be carried out by the chartered accountants. The Comptroller and Auditor-General should be taken out of the picture for checking of individual transactions, as in the case of the nationalised State Bank of India. He should be associated, however, with the review of overall performance of the enterprise by the government and the concerned legislative committee.

The various measures mentioned above will help bring efficiency into the management of the enterprise. But the deepening of the aware-

ness of the usefulness of this approach, reinforcing of the willingness to implement it and its actual implementation at all the three levels—political, administrative and managerial—will take time. Therefore, the earlier a start is made in this direction, the better it is for the good of the country.

Again, to improve the organisation and the structure, to recruit and retain quality personnel and, above all, to build and develop good managers are important and difficult tasks and require boldness, foresight, and courage on the part of the political and administrative leadership. The development of these qualities in the managers of public enterprises is going to be a long training process. What can then be done in the meantime? The only remedy, I feel, is to convert the existing public sector enterprises into mixed enterprises. A certain percentage of the shares should be offered to the private sector in all industrial and commercial projects (except in strategic or defence industries) and entrepreneurs of proven ability in the private sector should be invited to join the boards of management and help putting the management of the enterprises on sound economic lines. All new enterprises which government wants to start in the next 15-20 years should be of the mixed pattern. Every enterprise in the mixed sector, wherever possible should face competition from the private sector. Such competition will work as a built-in device for increasing efficiency. Similarly, every monopoly in the private sector should also be curbed by starting a company in the mixed sector. Large sums of money which may thus be released could be utilised for development of other important sectors of the economy. The switch-over to mixed enterprises will help speed up: (*i*) the building of managerial talents in the country, (*ii*) creation of a sound organisational structure, and (*iii*) development of a sound personnel policy in the mixed sector. All these advantages will be available when government finds that the conditions are ripe to convert the mixed enterprises into wholly-owned public sector undertakings. Such an arrangement will also attract local savings, foreign capital, foreign know-how and managerial talents through international lending agencies. It is my firm conviction that this is the only and the right approach under the existing circumstances to improve the management of the existing public sector enterprises and consequently to increase the rate of economic growth. □

Managerial Personnel for Public Enterprises*

Ajit M. Banerjee

THERE HAVE been indications in recent times that all is not well with our enterprises. There have been frequent revisions of cost estimates, delays in construction and commissioning, and shortfalls in attaining of production targets. The question of modern planning and programming techniques apart, the success of the projects is predominantly a function of the character and quality of its managerial personnel. While there is a growing awareness in government and enterprises about the importance of manning the enterprises with personnel of the right calibre, their efforts in this direction have been essentially half-hearted and diffused.[1] The experiment initiated by the government with the Industrial Management Pool in 1959 has met with dismal success. While large enterprises like the Hindustan Steel are increasingly directing their efforts to recruit and develop managerial personnel, no bold and comprehensive attempt seems to have been made to tackle the problem with a pragmatic approach. The reasons for the failure of the Pool scheme are too well known: lack of imagination in preparing the scheme, restricted scope, and want of authority to implement. Out of 210 officials recruited to the Pool, about one-third came from within the government. The Pool was conceived in terms of generalist administrative personnel and non-technical personnel in functional fields like finance, accounts, sales, purchase, stores, transportation, personnel management, and welfare, etc. A broader concept of management in terms of all 'line' personnel, both technical and non-technical, whose duties involve planning, directing and coordinating the work of a group seems to have eluded our policy-makers and planners.

The details of the process of selection both for technical and non-

*From *Indian Journal of Public Administration*, Vol. X, No. 3, 1964, pp. 513-23.

[1]The examination of problem is confined to public enterprises set up as corporations or government companies and engaged in industrial production.

technical positions very in different enterprises, but they invariably include laying down of minimum qualifications, advertisements in newspapers, and interview by a selection committee or board set up by the enterprise. The policy statement made by the Government of India in April 1961, to serve as a guideline on recruitment matters, *inter alia*, provides that: (1) all recruitment to middle-level, both technical and non-technical positions should be made on an all-India basis, merit and qualifications being the principal criteria; and (2) for higher managerial positions, candidates available in the Industrial Management Pool should first be considered and failing such candidates, there should be advertisements on an all-India basis or screening of candidates who may have applied on their own for a particular position.[2]

The Estimates Committee have time and again recommended the creation of a central personnel commission on the lines of the Union Public Service Commission, or more than one commission on regional basis, for purposes of recruitment to middle and higher level jobs. It has also suggested the constitution of an Indian Commercial and Industrial Service and a Finance and Accouts Cadre, for all enterprises, and a Central Engineering Service for multi-purpose river valley projects.

The existing selection process does not in practice invariably operate on the merit system nor is it much related to job analysis and specifications and a realistic estimate of manpower requirements on the basis of a scientific assessment of needs. Public enterprises have been to an extent the victims of local pressures in matters of employment. The selection techniques are woefully deficient in terms of assessing the managerial capacities and potentialities of the applicants for the job.

Promotions in the enterprises are generally made on the basis of seniority, tempered with merit. A large number of enterprises have not laid down any promotion policy or rules and favouritism and nepotism are said to be rampant in varying degrees in different enterprises. There have also been complaints of accelerated promotions; and to meet this deficiency, the Estimates Committee recommended a minimum qualifying service of three years.[3]

MANAGERIAL SKILL

The structure of management cadres, the selection process and the promotion policy and practices are intimately inter-related. These deserve to be considered in the context of the type of managerial personnel our enterprises urgently need. The delays in execution, shortfalls in pro-

[2]*Note on Recruitment Policy in the Public Sector Projects,* laid on the Table of the Lok Sabha by the Minister of Industry on April 14, 1961.

[3]The Estimates Committee *Personnel Policies of Public Undertakings,* Fifty-second Report, paras. 198-205, Third Lok Sabha, New Delhi.

duction and not very happy labour relations in the enterprises point towards the imperative need for manning the enterprises by personnel who can obtain results. Such personnel must obviously have the necessary expertise required of their jobs, must be able to take risk and responsibility, should have not only the capacity to manage men and things within the enterprises, but also the ability and skill to plan and execute a strategy of action to win the support of higher echelons and outside influences, having a bearing on the success of the enterprise, and to meet unanticipated developments if the original plans and procedures of work fail to achieve the desired results. In other words, the managerial personnel must invariably have three types of basic skills: (1) technical skills, (2) human relations skills, and (3) organisational skills.

The requirements of technical skills for public enterprises seem to suggest that the managerial personnel should be grouped into three types of cadres: (1) 'generalist-managerial' personnel (corresponding to the generalist administrators in the civil service) who have a grounding in industrial economics, production processes (in select area of manufacturing), project programming, production planning and control, purchase, stores and sales, financial structure and accounting of industrial enterprises, etc. (2) 'functional-managerial' personnel, having specialised knowledge and experience in areas like accounts, sales, purchase, stores; and (3) 'technical managerial' personnel, *i.e.*, persons with engineering and similar other technical qualifications whose duties involve managerial functions of some order.

Linked with categorisation of managerial personnel on the above lines is the question of the area for which they should be recruited. The scheme of the Industrial Management Pool was too limited in scope and too wide in range. There is a growing demand today that individual enterprises, particularly the large ones, should have full autonomy to recruit and develop the personnel which they need (the autonomy exists in theory but perhaps not in practice!). The main reasons put forward in support of this are: each enterprise is for the most part different from others; the enterprises must have freedom in matters of recruitment and promotion to enable it to attain results with speed and economy; and recruitment on 'enterprise' basis provides a powerful mechanism for developing personnel from within and motivating them to higher levels of performance. The recommendations made by the Estimates Committee about the recruitment of personnel through a central or regional agency patterned like the Public Service Commission seem to ignore the hard realities of the enterprise life. They show utter disregard of the need for flexibility in personnel recruitment and the promotion process.

The production process lends a particular character more to the 'technical-managerial' jobs in an enterprise and even some of the

'functional-managerial' jobs. It seems, therefore, desirable to group for purposes of recruitment all the enterprises together which function in the same field of technology.[4] Recruitment to 'technical-managerial' and 'functional-managerial' positions may be common to all the enterprises falling in a group. A common recruitment to such positions on an all-India basis does not seem to be feasible in view of the large increase in the number of enterprises which has already taken place and which is likely to come, as the public sector expands with the succeeding five year plans. On the other hand, the restriction on the recruitment process to the individual enterprises is likely to be too narrow in terms of the range and width of experience and will not be conducive to the development of initiative and ingenuity in the personnel.

However, a 'generalist-managerial' service on all-India basis will obviously bring along with it a high degree of prestige, enlargement of competence, richness and diversity by experience and wider opportunities for development and climbing up to higher positions. These will decidedly be great assets for improving the effectiveness of enterprise management. The faults and failures of the Industrial Management Pool scheme do not stem as much from its all-India base as from its voluntary character and the lack of seriousness to operate it properly. The concept of a service is based on a real organisational need but it has to be applied with full regard to the specific circumstances. The security of tenure in the all-India 'generalist-managerial' service should be conditioned by demonstrable successful performance in terms of results. The idea of a service, even when it is workable, seems to be abhorrent to some people, but they seem to little appreciate the advantages of an organised system (for manning top positions in public enterprises in an economy where planning holds the key to future progress) over a loose and uncoordinated arrangement subjected to numerous pulls and pressures particular to each public undertaking. Does the latter alternative inhere the potentiality to develop a corps of 'generalist-managerial' personnel of superior calibre which our public sector needs today?[5]

RATIONAL RECRUITMENT/PROMOTION POLICY

Both for recruitment and promotion to higher managerial positions, there is urgent need to ensure certain minimal requirements of organisational and human relations skills. The existing interview methods do not seem to have been really effective in selecting

[4]H. K. Paranjape, "State Enterprises: Co-ordination and Control", *Indian Journal of Public Administration*, October-December, 1961, p 528.

[5]H. K. Paranjape, *The Industrial Management Pool: An Administrative Experiment*, Indian Institute of Public Administration, New Delhi, 1962, pp. 78-83,

the personnel of right calibre. Here it may be desirable to supplement them with modern psychological testing techniques.

Even for promotion the enterprises should take the help of psychological tests to identify the specific characteristics of successful and unsuccessful executives. The existing system of efficiency rating in the absence of any objective and detailed criteria for evaluating the performance of the individuals seem to be of little real use for promotion purposes.

In the United States, substantial research has been done in developing batteries of tests for selections to executive positions. These tests are designed to evaluate personality traits as well as intellectual insights and skills. Psychological tests of various types could be usefully employed—tests, such as projective, situational, intelligence—to assess organisational and human relations skills of the candidates both for recruitment and promotion. Projective techniques like Thematic Apperception Test (TAT), suitably modified, has been profitably used to predict the effectiveness of managerial personnel.[6] Situational tests are currently used by Armed Forces for adjudging organisational qualities like initiative, drive, leadership, courage to take risks, etc. Situational tests can be specially constructed to screen organisational abilities in relation to the needs of the enterprise for managerial abilities. Even special intelligence test can be useful for the prediction of future achievement, performance and the like.[7]

[6]According to TAT findings in Sears and Roebuck the successful executives exhibited eleven definite traits, and the unsuccessful, twelve. The former are: "(1) primarily motivated by the sheer accomplishment of work; (2) accepts authority without resentment; (3) has strong drive towards achievement first; (4) can organise events or facts and understand their relationship; (5) is decisive; (6) has a firm conviction; (7) has a constant drive to be moving and doing things; (8) has a pervasive fear of failure; (9) is aware of immediate realities and their implications; (10) identifies himself with superiors and regards subordinates as doers of work; (11) respects the symbol of authority. These traits are reported to be present in some degree in all efficient managers."

Conversely, the test indicates that the failure of an executive is usually due to a combination of several of the twelve traits: (1) detailed minded; (2) avoids responsibility—does not bother about changes or innovations; (3) desires social status of an executive, not the work itself; (4) unconsciously desires to be in some other non-executive work; (5) intolerant of slow advancement through routine tasks; (6) cannot co-operate with associates or accept criticism; (7) resists authority; (8) arrogant with subordinates; (9) interprets situations in terms of fixed ideas; (10) concentrates all energy in his work; (11) fears success; (12) overly self-critical, convinced, he cannot succeed", Perrin Stryker, *A Guide to Modern Management Methods*, McGraw-Hill, New York, 1954, p. 68.

[7]For instance, the Wechsler-Bellevue Intelligence Scale or, in its more recent form the Wechsler Adult Intelligence Scale, is a widely used, well-standardised test, individually administered, which gives the intelligence level, cultural range, etc. This test has proved very useful for the prediction of future achievement, performance and the like.

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There seems to prevail among government circles general scepticism about the utility of modern testing techniques, which is hardly justifiable by the conspicuous lack of effort on our part to experiment with them. Some spade work in this direction is underway in private industry. A serious research effort needs to be made for developing suitable tests valid in Indian situation. We can be sure of one thing; the psychological tests would decidedly help confirm or refute the assessment made by *viva voce* test and therefore be of definite value in weeding out managerial personnel who do not possess the requisite traits and skills. This by itself will be a great step forward, as our enterprises are reported to be plagued with considerable 'dead-wood' in the higher echelons of management.

The problem of selection and promotion which we have considered so far relates to managerial personnel, which as commonly understood, do not include the Managing Directors/Chairmen of enterprises upon whom falls ultimately the responsibility for the success or failure of the enterprise. These top level executives are appointed by the President on the recommendations of the government. The recent enquiry by Mr. B. Mukherjee, into the causes of fire at the Heavy Engineering Corporation, Ranchi, has highlighted the failure of the top management in gearing the team of the enterprise to the best advantage of the undertaking, and in bringing about coordination. It has been reported that "there was almost chaos in certain departments of the administration due to many reasons, which led to a state of affairs where anything could have happened."[8] No improvement in the selection and promotion procedures for managerial personnel will yield any substantive and lasting results unless a similar improvement is effected with regard to top management. The selection of General Managers/Chairmen should be made by a constitutional body like the Union Public Service Commission through the use of rigorous selection techniques, including psychological tests. The latter should prove highly valuable in confirming the results of *viva voce* with respect to the suitability of the persons recommended by the government in terms of the capacity to organise and to manage, the degree of achievement mindedness[9] inherent in the personality and the extent to which it covers public responsibility.

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It is also valuable in revealing discrepancies, for example, an exceptionally high intelligence but poor scholastic achievement. In either case the test has shown the necessity for gathering further information about the applicant. See: Mortram Torre (Ed.), *The Selection of Personnel for International Service*, World Federation for Mental Health, New York, 1963, p. 153.

[8]PTI Report, *The Sunday Statesman*, October 4, 1964, p. 9.

[9]David C. McClelland, *The Achieving Society*, D. Van Nostrand, New York, 1959, pp. 39-61.

Unless care is taken at this stage to select the right type of people to manage the enterprises, attainment of results will remain an uncertain proposition subject to all types of avoidable hazards.

TRAINING

Training schemes for the development of technical skills are fast catching up in most of the large enterprises.[10] Only a few enterprises seem to have initiated supervisory and management training programmes (*e.g.*, the Hindustan Steel and Indian Telephone Industries). Some enterprises have taken advantage of the training courses organised by various agencies like the National Academy of Administration, the National Productivity Council, and the Administrative Staff College. Air-India has recently started initial training for junior executives and supervisory cadres in certain departments; the Hindustan Machine Tools has posted junior executives as under-studies in the administrative departments.

In private industry, the need for basic or foundational training in subjects not quite directly connected with the specialised work involved is recognised and, in varying degrees, the same principle is applied in the training of purely technical or even lower staff. Training for technical personnel includes advanced technical or professional studies, induction courses which have a fairly wide scope, and training in managerial functions. This is in sharp contrast to the practice followed in public enterprises: nothing has practically been done by the latter to train, for instance, engineers or other technical personnel in managerial functions. In large private undertakings there appears to be careful arrangements for a constant assessment of the progress of an employee and for a follow-up on the application of training to practical work. The value of providing for their employees avenues for higher study, whether for superior professional attainments or only general education, is duly recognised. Lastly, considerable attention is devoted to the planning of training courses and the adoption of appropriate methods. The Tatas have a comprehensive programme of training in management skills, consisting of the Company Information Course, the Tata Management Conference, the Tata Staff College; the Hindustan Levers run an advanced management training scheme; the Burmah Shell run courses for its executives; special management courses are run by the Imperial Tobacco Company, etc.

The Institutes of Management in Ahmedabad and Calcutta, through their well planned programmes of training will help provide a good base for recruitment of managerial personnel. The enterprises should

[10]For details see, O.P. Agarwal, "Developments in Training Programmes for Public Sector Employees", *Indian Journal of Public Administration*, Vol. IX, July-September, 1963, pp. 116-120.

also be able to utilise their facilities for executive development p grammes as well as the programmes of training offered by ATII Management Associations, Indian Institute of Technology (Kharagp Indian Institute of Science (Bangalore), Victoria Jubilee Technical In tute (Bombay), Indian Institute of Public Administration (New Del etc.

From the perspective of the skills which managerial personne our enterprises must possess it seems desirable to make special arran ments for two types of training programmes: training in human relati skills and training in organisational skills.

As to human relations skills, one of the biggest challenges for enterprises is how to develop a purposive and dynamic group of ma gerial personnel into a real 'team' so that they act effectively and thusiastically with one another, pull for the enterprise and not me each for himself. How can they be led to understand their joint as as their individual functions in the enterprise so that responsibilit best met and authority most effectively exercised. And how, finally this be achieved in terms of managerial control and carrying out p grammatic goals of an enterprise.

The human relations skills can be best developed among the ma gerial personnel by exposing them to sensitivity training. Sensiti training is very different from class room instruction, seminar, etc. subject matter of sensitivity training is essentially experienced. programme places heavy emphasis on changing individual conduct t on imparting scientific knowledge. It encourages the participant examine his own behaviour and to experiment with new ways of relat to others; it attempts to make the executive aware that he must unc stand as much about human feelings, sentiments, values and attitude he does about facts.[11]

The organisational skills are concerned with coordinating integrating all the activities and interests of the enterprise towar

[11]Sensitivity training generally lasts a period of four weeks. During the first the object is to foster in the participant: (*a*) a greater insight into self and an aware of the impact of self on other people; and (*b*) an increased sensitivity of the behavio others. In the second week, the emphasis shifts to the groups: the forces that op in a group, etc. Finally, in the third week the focus is given on such aspects as orga tional effectiveness, motivation, leadership and managing change.

The entire training consists of the T-Group, the skill session, and the ge session. The T-Group is the basic unit and consists of 8-15 participants. The session is the T-Group meeting to perform specific exercises like role playing: it is oriented. The general session includes the entire group of trainees for lecture demonstrations. Each T-Group has usually a trained social psychologist as its le The leader does not exert control, he serves as a catalyst. The T-Group is an uns tured, self-directed group with no pre-determined agenda. Alfred J. Marrow, *Be the Executive Mask*, American Management Association, New York, 1964, pp. 20

common objective. It calls for power of observation, diagnosis, analysis, synthesis and overall integration. Organisational skill requires a firmer and fuller understanding of the problem and its solutions in terms of the whole as well as the parts; it is an ability to rise above rule oriented thinking, as a result of dynamic ideas initially derived from the spontaneity of unhindered non-rational aspects of human thought; it is the ability to discern problems, devise solutions, analyse data, and exercise judgment. The sharpening and deepening of organisational skill is a matter of exposure to varied situations.

A programme of training to inculcate organisational skills can be planned and instituted. Here the emphasis should essentially be on a mastery of techniques of scientific-management: planning, organising, staffing, directing and controlling—and to derive from these functions certain fundamental principles that hold true in understandably complicated practice of management, of techniques of empirical analysis which help distil management experience to draw certain generalisation of practical value, the study of management of inter and intra-personnel relations, phenomena ranging from personality dynamics of individuals at one end to the relations of cultures at other. The participants should be helped to perceive how people work together in groups to accomplish objectives; they must understand human behaviour and its impact on organisational input. The human relations theories have helped to provide better explanations of why people in organisations behave as they do by stressing and exploring the role of the group.

It is needless to emphasise that training programmes for development of both human relations and organisational skills are needed not only for 'generalist' and 'functional' managerial personnel, but also for technical line personnel having managerial duties. Too little attention seems to have been devoted to developing of managerial competence of the latter type who constitutue the nervous system of an enter-prise.

MOTIVATION

Last of all, motivation holds the key to raising the standard of performance of managerial personnel. The mere possession or the development of needed skills is no guarantee of their effective utilisation for achieving results: the personnel must be motivated to use them for peak performance.

True that motivation even at the higher managerial levels is partly a function of material incentives. The existing emoluments and benefits in the public enterprises do not always compare favourably, with those in the leading private industrial undertakings.[12] Perhaps it isneither desirable

[12]H.K. Paranjape, *A Study of Flight of Technical Personnel and Related Problems Affecting Public Enterprises*, Indian Institute of Public Administration, New Delhi, 1962, pp. 174-75.

nor feasible to bring emoluments and benefits in the public enterprises on par with those of private industry in view of the fact that the state enterprises, unlike the private industry, have a public purpose to fulfil. It seems, however, that some further improvement can still be instituted without much adverse impact on enterprise's finances or national economy. Equally, perhaps more, important is the non-material motivation for managerial personnel. Strangely enough, most of our enterprises do not seem to have built up for their employees a sense of pride in belonging to a particular enterprise, as most of the large private enterprises abroad have attempted. Little attempt has been made to build into the organisational system of our enterprises conditions which will help fulfil the emotional and psychological and social needs of the employees -- the desire for security and protection, ego-needs for recognition and self-ulfilment, and social needs for participation. Maslow, on the basis of extensive clinical observation, theorised that man is motivated by his fundamental needs, which can be sub-divided into five broad categories. Further, these categories can be viewed in a general way as organised in a series of level—a hierarchy of importance.[13] The higher-level needs became activated as lowerlevel needs become relatively satisfied. A crucial factor is the concept that a satisfied needs no longer serves as a principal motivator of behaviour.

Another approach on motivation presents the various factors in the work situation and, on the basis of research, categorises some as 'satisfiers' and others as 'dissatisfiers'. The dissatisfiers are those factors which do not really increase or strengthen motivation by their presence, but do produce dissatisfaction by their absence or attenuation. They can be compared to the hygiene factors necessary to prevent physical illness. Their presence does not add to a person's health, but their absence may detract from it. These factors include good administrative practice, competent supervision, fairplay, satisfactory physical working conditions, job security, and benefits.

The satisfiers of 'motivators' which have been identified are: achievement, recognition, the work itself, responsibility, and advancement and growth.[14]

[13]These categories arranged hierachically are: psychological needs (lowest or basic level needs); safety needs; social needs and psychological needs. See Albert Maslow, *Motivation and Personality*. New York, Harper, 1964.

[14]Frederick Herzberg and others, *The Motivation to Work*, New York, 1959, Willey.

Prof. Douglas McGregor of MIT has introduced a concept of motivation in the management context and has designated it as theory 'Y' in contrast to traditional concept known as theory 'X'. Theory 'X' connotes management as a process of directng peoples' efforts, motivating them, controlling their actions, modifying their behaviour to feel the needs of the organisation. Without this active intervention by manage-

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CONCLUSION

The basic malaise in our public enterprises, as in the governmental bureaucracy seems to be that good work is not properly rewarded nor is bad work adequately penalised. The grafting of governmental methods and procedures of work in public enterprises as compared to the more progressive methods followed by the private enterprises seem to have worked towards disencouraging initiative, frustrating responsibility, and stiffling creativity. Despite the public character of our enterprises, they do not seem to be pervaded with an atmosphere where every employee feels the importance of and pride in his work which characterises the leading business and industrial houses in the country. This is in no less measure due to the transplantation of the bureaucratic values, attitudes and rigidities to the enterprises, and the diffusion and dispersal of responsibility and crippling of autonomy and initiative by the present system of parliamentary and governmental control. The development of proper motivation and initiative would necessitate not only increased autonomy for the enterprises and enhanced delegations within the plant, but also a basic change in the bureaucratic attitudes, work methods and procedures obtaining in the enterprises. While the need for fixing responsibility for results and appraising result by objective criterial is paramount, it is equally necessary to supplement it by greater flexibility in recruitment and promotion and disciplinary procedures to give the managerial personnel some real authority and influence over their staff. They must be allowed to operate within a framework in which they can take necessary steps to forestall developments likely to hamper the attainments of results, with the full confidence that their bona fide action in this respect will be fully supported by the higher echelons.

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ment, people would be passive—even resistant—to organisational needs. They must therefore be persuaded, rewarded, punished, controlled, etc. Theory 'Y' conveys that people are not by nature passive or resistant to organisational needs. They have become so as a result of experience in the organisations. The motivation, the potential for development, the capacity for assuming responsibility, the readiness to direct behaviour toward organisational goals are all present in people. It is a responsibility of management to make it possible for people recognise and develop these human characteristics for the mselves. See *The Human Side of Enterprise*, New York, McGraw-Hill, 1960.

Middle and Higher Management Personnel in Public Sector*

S.T. Raja

IN CONSONANCE with the objective of a socialist pattern of society and in keeping with the Industrial Policy Resolutions of the Government, the public sector has been playing an increasingly active role in the industrial expansion of India through its successive five year plans. The size of the investment in the public sector is, therefore, growing in geometrical proportion and the question of proper utilisation of these resources, both in the shape of Indian rupees and of scarce foreign exchange, assumes considerable national importance and evokes keen public interest. These resources have to be properly utilised and made to produce national wealth commensurate with the sacrifices made. This objective can be achieved only if the persons placed in the public sector are carefully chosen, trained and provided with suitable incentives in order to bring about the best in them. On the alertness, efficiency and integrity of this middle and higher management personnel will ultimately depend the success of the public sector and the prosperity of the country. While, everyone seems to be in general agreement with these principles, one sometimes wonders whether this is matched by corresponding coordinated action in the right direction. The public sector being distributed between various administrative ministries, some strong central agency has to do the requisite thinking and acting in this matter. The public sector operates in various shapes such as departmental undertakings like the Railways, Defence Production, etc., statutory corporations like the Reserve Bank of India, the State Bank of India, the Life Insurance Corporation, Central Warehousing Corporation, Foodgrains Corporation etc., and companies registered under the Indian Companies Act like Heavy Engineering Corporation, Hindustan Steel and National Coal Development Corporation. Government apparatus being generally impersonal and also subject to frequent changes at higher levels, often fails to provide the personal touch and overlooks the human factor which is so

*From *Indian Journal of Public Administration*, Vol. XI, No. 1, 1965, pp. 19-25.

vital for providing the much needed incentives for good work and disincentives for bad work in the public sector. Equally, it has also to be realised that the running of an industrial or commercial organisation, be it in the public or in the private sector, is quite different from working in a government office or secretariat. The former calls for far quicker decisions and the responsibility for such decisions has to be shouldered by far fewer people than in government. It follows, therefore, that the qualifications, attitudes and motivations required in industry have to be different from those in government departments.

ASSESSMENT OF NEEDS

The requirements of the public sector both for technical and general management at middle and higher levels during the Fourth Five Year Plan are variously assessed by different agencies. Even assuming a modest figure of ten thousand managers in all for technical, financial and general management, it will require tremendous effort in the right direction to recruit, train, place and motivate this number of important persons. It will present a problem of considerable magnitude in human engineering to build up a management cadre which will constitute the backbone of the public sector industries, both present and future. While management at middle level may be largely a matter of specialised knowledge and experience, it becomes less specialised and more a matter of general management technique as it travels upwards. For example, a general foreman, assistant superintendent or superintendent of a shop in a steel plant or in a machine building plant is called upon to discharge a wide variety of management functions besides solving a few technical problems in his own line. The higher management job would, therefore, require experts with special aptitude and experience of running large commercial and industrial enterprises irrespective of the fact whether they have a technical background or not. No senior or top executive can really be an expert in all branches of technical know-how required in running a large industry. It is, therefore, his proven ability and integrity as the leader of business and industry which would be a paramount criterion in making selections at higher levels.

RECRUITMENT PROCESS

There is considerable divergence of opinion among the chief executives of public sector undertakings as to the agency and mode of recruitment. Some large public sector organisations feel that recruitment should be in their own hands because any other arrangement would adversely affect their control over the managers and the loyalty of the managers to the organisation. Another argument against centralised recruitment advanced by the same group is that there may be delays in recruitment as it sometimes happens in centralised recruitment through

the Union Public Service Commission. According to the advocates of decentralised recruitment, control and loyalty go hand in hand. There are, however, quite a few chief executives of the public sector who feel that loyalty has to be inspired by the senior and top executives by their own ability, integrity and sense of fairness. If the chief executive is a person with a towering personality and sterling merits and if he keeps himself above nepotism and party politics, meting out justice to each employee according to his work and worth, a team of good and loyal workers can be built up. As regards the argument of delay in recruitment, this can easily be countered by advance planning, quick action and also maintenance of a panel of approved persons with different qualifications, if necessary. The Estimates Committee has recommended centralised recruitment and this has been further supported by Shri B. Mukherji, an ex-Judge of the Allahabad High Court who was appointed by the Government of India to enquire into the fire accident in the Heavy Machine Building Plant of the Heavy Engineering Corporation. This does not mean that the chief executives of the publie sector undertakings would not be associated with the recruiting agency right from the beginning. In fact, their association would be essential.

THE EXPERIMENT WITH INDUSTRIAL MANAGEMENT POOL

At this stage, it would be useful to examine the scheme of the Industrial Management Pool which has been in existence for some time to the extent that some important lessons can be derived from the experience of its working. While the Industrial Management Pool scheme was framed carefully and started with a laudable objective, it has failed to produce the desired results not due to any shortcomings in the scheme itself but due to the various delays and failures in its implementation. Some of these shortcomings were as under:

(*a*) Between the adoption of the Industrial Management Pool Scheme and its implementation, considerable time was spent with the result that many persons who had initially shown interest withdrew.

(*b*) The emoluments offered to the persons selected were based on what they were actually receiving at the time of selection and not on any evalutaion of their qualifications, experience or utility to the public sector. The result was that many people did not find the terms very attractive.

(*c*) Some rigidity was introduced in the scheme by prescribing minimum periods before promotions could be considered.

(*d*) Initial difficulties were experienced in placing selected officers of the IMP because reservation of posts did not exist and does not even now exist.

(*e*) Further recruitment to IMP was stopped after initial recruitment. The promotion rules forced some people to resign from the IMP in order to get their due advancement outside the IMP rules. The result was that the initial strength of over 200 officers dwindled to about 110.

The Industrial Management Pool has, therefore, suffered from stagnation and continuous erosion to such an extent that its independent existence in the present form is very much in jeopardy. It has, however, provided a good number of officers who have been occupying key posts in important public sector undertakings. A criticism has been levelled in some quarters that some of the officers from this Pool have not been found to be of much use to some public sector undertakings. This statement would be no more correct in case of IMP than in other all-India services. The best course now would be to merge the remnants of the Industrial Management Pool at suitable levels in a much larger and wider organisation of the Indian Management Service.

THE NEED FOR INDIAN MANAGEMENT SERVICE

The main ingredients for attracting and motivating a person engaged in business and industry are the following:

(*a*) Social status accompanied by a reasonable security of service;
(*b*) Decent working and living conditions;
(*c*) Reasonable remuneration for the skill and work to be done by him; and
(*d*) Adequate opportunities for advancement on the basis of experience and performance.

The government sector offers and will perhaps continue to offer relatively lower scales of pay and prospects in comparison with the private sector. This is the position in many other countries and will have to be accepted as a fact of life. In order, therefore, to attract the best talent in the country, it would be necessary to provide other inducements to the educated young men both in technical and general management lines. This can be provided by the constitution of an "Indian Management Service" (on the analogy of the Indian Administrative Service). The Service should have two wings, *viz*.: (1) technical, and (2) general administration including financial administration. The members of this Service will naturally feel a certain sense of pride like members of the other all-India services. The recruitment must be done by an independent agency to be constituted by the Government of India and called the 'PUBLIC SECTOR SERVICE COMMISSION" (PSSC). The Commission should consist of one administrative chairman drawn from one of the

active and successful chief executives of the public sector and two members—one technical and one financial expert. The PSSC would conduct an all-India competitive examination for recruitment to the IMS and would associate three or four top executives from the public sector while conducting the *viva voce* test. This recruitment by an impartial all-India body duly assisted by the executives of the public sector would on the one hand put the selections above all reasonable criticism and on the other hand ensure adoption of uniform standards as well as an all-India outlook. From the angle of the chief executives, themselves, they would be free from pressures which may perhaps be exerted for taking young people with considerable influence irrespective of their merit or qualifications. A provision for filling a certain number of posts by departmental promotions with the approval of the PSSC in the same manner as promotions of provincial service officers to the IAS cadre should be made in addition to direct recruitment. Officers from other Central and all-India services, actually working in the public sector may, if found suitable, be given an opportunity for opting into the IMS at appropriate levels. This will satisfy aspirations of existing employees and at the same inject new blood in the organisation. The number of vacancies arising or likely to arise in the various public sector undertakings each year should be carefully assessed and conveyed to the PSSC. The PSSC will then take steps to recruit people first by holding a written examination on the basis of a previously prescribed syllabus relevant to the requirements of the Public Sector. The candidates obtaining more than 50 per cent marks in the written test should be interviewed by the PSSC assisted by three or four chief executives and one or two top management experts as advisers. The interview would be mainly for probing deeply into the aptitude, capacity, initiative and personality of the candidate. While selecting the candidate, the PSSC would also decide how best the candidate could be utilised in any particular branch of the industry.

Scales of Pay

In order to make the Indian Management Service sufficiently attractive and to ensure reasonable returns to the managerial personnel, it would be necessary to fix the remunerations at reasonable levels in keeping with the general standard of wages and salaries prevailing in the country and also to introduce a large measure of flexibility in making promotions from one grade to another, while at the same time safeguarding fair assessment and merit-rating. As soon as a candidate is selected, he would receive a fixed pay of Rs. 600 per month as probation pay. After satisfactory completion of two years' training on probation, he will be taken in Grade IV of the IMS, *viz.*, Rs. 700-50-1250. The other

three grades would be as under:

Grade III—Rs. 1200-60-1500-75-1800
Grade II—Rs. 1800-100-2000-125-2750
Grade I—Rs. 2750-150-3500 (for chief executives)

In addition to the above scales of pay, fringe benefits such as, free furnished house and company's car and entertainment allowance should be given to persons in grades II and I. While recruitment would be generally in the lowest grade, it may be necessary to fill certain specialised posts in higher grades by direct recruitment through PSSC if suitable persons are not available from within the public sector. Promotions from one grade to another should be made by a departmental promotions committee of the public sector undertaking concerned, with one representative of the PSSC present. All promotions to grade II and grade I, however, would be referred to the PSSC with the recommendations of the chief executives concerned and those to grade I would require the approval of the government.

Training

There are some excellent training institutes doing extremely good work in the country at present. For example, the two Management Training Institutes at Calcutta and Ahmedabad are doing a fine job of work in their own ways. Though the Administrative Staff College at Hyderabad modelled on the Henley Staff College pattern, does not train people exclusively for industrial management, there is a considerable industrial and economic bias in its syndicate system of training. Besides, some of the universities have also been giving diplomas and degrees in Business and Industrial Management. There, however, seems to be an urgent need for a coordinated training programme to be evolved at these institutes for the members of the proposed 'Industrial Management Service'. The PSSC with the assistance of some management experts and the All India Management Association, should formulate a coordinated training programme for two years after recruitment. The initial training for two years should be in the management institutes and such university institutions as may be approved by the PSSC for this training. This should be followed by an 'on-the-job' training in the organisation. After the candidates have spent some time in their respective organisations, they could be sent in suitable batches to the Administrative Staff College, Hyderabad at a later date.

Placement

As stated earlier, the PSSC while holding *viva voce* tests would decide about the suitability of the selected candidates for a particular

type of job. After compilation and publication of the results, the PSSC will arrange for placement of the candidates in consultation with the chief executives of the public sector undertakings. Once the candidate is placed in a public sector undertaking after initial training for two years, he will be administratively under the control of the chief executive of that organisation who will be writing his annual confidential reports. Future promotions of the candidate either in the same organisation or elsewhere will depend upon his confidential report and the recommendations of the chief executive of the organisation in which he is working. The fact that the chief executive will be associated at all stages, *viz.*, recruitment, placement and promotion, would ensure proper control and also meet the argument of loyalty advanced by some executives of the public sector. Transfer of the IMS officers from one public sector undertaking to another can be made by mutual consultations between the chief executives concerned, but with the approval of the PSSC. In respect of the IMS cadre, the chairman of the PSSC will additionally perform all the duties and functions generally exercised by the establishment board and the establishment officer in the Ministry of Home Affairs in relation to members of the all-India services. He will be assisted by the secretary of the PSSC in establishment matters.

If the Public Service Commission is a small and compact body manned by people who are used to quick action and business like dealings, it will not only ensure recruitment, training and placements of the best talent available in the country but also prompt disposal of all matters entrusted to it. In order to enable this body to do full justice to its job, it should be permitted to function freely and to frame its own rules and regulations. Since this body will be catering for a number of economic ministries, it may be administratively responsible to the Planning Commission instead of to any particular administrative ministry of the government. If it is felt that the Planning Commission should not have any administrative functions or responsibilities, the Cabinet Secretariat or the Ministry of Industry and Supply could perhaps assume administrative functions for the PSSC. As the latter body will be functioning as an independent and autonomous body with wide powers, the administrative ministry's responsibilities would be confined only to ensuring that decisions and recommendations of the UPSC are being scrupulously followed by the undertakings concerned. □

Attitude of the Employees of Hindustan Steel Limited Towards the Personnel Policies*

O.P. Minocha

THE TERM 'employees' attitude' is used in a variety of ways by social scientists.[1] Generally, it refers to the stand employees take on controversial issues; while in the narrower sense, it refers to affective orientations of the employees towards work roles which they are occupying[2] and to the relative importance they attach to different aspects of work situation and work relationship. Implicitly or explicitly, the employees' attitudes usually focus on three classes of phenomena. One of these is cognitive in nature and refers to an employees' information regarding an issue. Another is behavioural, referring to the acts which an individual performs, advocates or facilitates with regard to an issue. The third phenomenon is affective, referring to employees' valuations.[3]

For the purpose of this study 'employees' attitude' refers to the views, reaction and the stand of the employees of the Hindustan Steel Ltd. (HSL) towards personnel policies and practices and their administration.

Despite a number of methodological problems associated with the

*From *Indian Journal of Public Administration*, Vol. XX, No. 4, 1974, pp. 811-34.

[1]For definitions also see Victor H. Vroom, *Work and Motivation*, New York, John Wiley & Sons, 1964, p. 99; John R. Hinrichs, "A Replicated Study of Job Satisfaction Dimensions", *Personnel Psychology*, Richmond, U.S.A., Vol. 21, No. 4, Winter 1968, p. 479; Edward E. Lawler III, "Job Attitudes and Employees Motivation : Theory, Research and Practice", *Personnel Psychology*, Vol. 23, No. 2, Summer 1970, pp. 228-9 and Harry S. Upshaw, "Attitude Measurement", *Methodology in Social Research*, edited by Hrbert M. Blalock, Jr. and Ann B. Blalock, New York, McGraw-Hill Book Company, 1968, p. 60.

[2]Vroom, *op. cit.*, p. 99.

[3]Blalock and Blalock, *op. cit.*, p. 60.

acquisition of a viable and valid measure of employees' attitude,[4] an increasing number of companies have found that an attitude survey can provide a clear and accurate picture of employees' feelings and reveal many specific relations which do not come to light through ordinary channels.[5]It is also used in checking on 'morale' conditions and finding ways to improve morale and relations within the organisation. It has also proved to be a good method of knowing the training needs of the employees.[6]

This paper purports to study attitude of the employees towards the personnel policies and their administration in the three steel plants of the Hindustan Steel Ltd. The survey was conducted with a view to measure the success and failure of such policies and to locate unsatisfactory feelings and sources of irritation, requiring remedial actions.

RESEARCH DESIGN AND TECHNIQUES

The attitude of the employees towards various personnel policies and their administration was studied mainly on the basis of a commonly used method[7]—questionnaire—substantiated by interviews and discussions with the respondents[8] After a preliminary study of the personnel policies and practices of the Hindustan Steel Ltd., a questionnaire was prepared.[9] The questionnaire consisted of three major parts, namely, the personal particulars of the respondents, their views on various personnel policies and practices and the portion where the respondents were asked direct questions about their attitude towards the organisation, employees and other allied matters. Most of the questions were framed in such a way as to provide 'multiple-choice' answers; while in some cases 'open-ended' questions could not be avoided.

The universe—Hindustan Steel Ltd.—for the purpose of the strati-

[4]For various types of problems which are posed in the employees' attitude surveys see Michael Micklin and Marshall Durbin, "Syntatic Dimensions of Attitude Scaling Techniques : Sources of Variation and Bias", *Sociometry*, New York, Vol. 32, No. 2, June 1969, pp. 194-205.

[5]Morris S. Viteles, *Motivation and Morale in Industry*, London, Staples Press Limited, 1954, p. 221.

[6]For extent of use of "Employee-Attitude Surveys" by industry see Viteles, *op. cit.* pp. 221-2.

[7]*Ibid.*, pp. 223-30.

[8]Some of the respondents, however, insisted on keeping the questionnaire with them for response, a few refused to reply to many of the questions and some others, used delaying tactics.

For issues and problems see Glenn P. Fournet, M.K. Distenfano, Jr. and Margaret W. Pryer, "Job Satisfaction: Issues and Problems", *Personnel Psychology*, Vol. 19, No. 2, Summer 1966, pp. 165-80.

[9]Draft questionnaire was based on the one used by Nigel Walker for his study of "Morale in the Civil Service" see Nigel Walker, *Morale in the Civil Service: A Study of the Desk Worker*, Edinburgh, University Press, 1961, Appendix B, pp. 282-94.

fied sample was divided into Rourkela, Bhilai and Durgapur Steel Plants and the head office. These units were further divided into the following three levels of employees:

(*i*) Non-executives, Chargehands only, falling immediately below the executive level in the line of promotion (in the scales of Rs. 325-575 and Rs. 375-800);
(*ii*) Junior-level executives (in the scales of Rs. 400-950, Rs. 700-1150 and Rs. 900-1250/1100-1400); and
(*iii*) Middle-level executives (in the scales of Rs. 1300-1600 and Rs. 1600-1800).

A ten per cent sample of the population existing in each of the above mentioned cells was taken. Having received back the questionnaires duly filled[10] it was found that the employees of production, maintenance, service, construction and administrative departments were sufficiently represented. As such, no need was felt to further stratify the sample.

The response to the questionnaire was encouraging as 295 (87.3%) out of 338 employees sent their replies. The response was the highest (88.2%) in Rourkela, followed by Durgapur (88.0%) and Bhilai (85.1%). The middle level executives responded heavily (97.0%), followed by junior-level executives (87.3%) and non-executives (83.5%).

FINDINGS AND DISCUSSION

The attitude of the employees towards only such aspects of personnel policies and practices, as were found to be important in the preliminary study, is being discussed. Even among those only such findings are being explained as were considered essential or which showed some significance for the purpose of this study.

Attraction to Job

Of the six factors, listed in the questionnaire, the employees were asked to mention the two most potent and the two least potent ones responsible for attracting them to their present jobs in HSL. On an analysis of the replies, it was found that almost the same factors had attracted the employees of all the three plants. It, however, revealed that employees at different levels were attracted by different factors.

[10]The replies were coded into categories from 0 to 9 or less for the purpose of punching cards. The coding could not be done earlier, firstly, to avoid confusion to the respondents and secondly, some of the questions were 'open-ended'.

Computer 620 on Fortran IV language and frequency distribution machine were used to analyse the replies in desired matrices.

The factors were given the following ranking by the employees of the three levels (Table 1).

TABLE 1

Factors	*Ranking by*		
	Non-Executives	*Executives (Junior)*	*Executives (Middle)*
(*a*) Foreign training	3	3	3
(*b*) National outlook of the organisation	2	2	1
(*c*) Pay	5	4	4
(*d*) Promotion prospects	4	5	2
(*e*) Security of service	1	1	5
(*f*) Social life in the organisation	6	6	6

Thus, 'security of service' has been the main factor of attraction for the non-executives and junior-level executives. It is followed by the 'national outlook of the organisation' and 'foreign training'.[11] For the middle-level executives 'national outlook of the organisation', followed by 'promotion prospects'[12] and 'foreign training' have been the major factors of attraction. This demonstrates that HSL during its early phases was able to attract persons because of elaborate 'foreign training' and good promotion opportunities. Though other factors have not changed, the promotion prospects, having declined, no longer attract the junior-level executives. Since 1967, with lesser job opportunities for fresh engineers, 'security of service' is being regarded as the main factor of attraction by the executives at junior levels as well as by the non-executives.

The ranking was further analysed on the basis of 'sources of staffing'. The same is indicated in Table 2. Thus, the employees who were serving in the Central Government and State Governments, before joining

[11]The Hindustan Steel Ltd., during 1956-1970, has trained 1937 engineers and 686 operators abroad.

[12]Like many other public undertakings there have been many cases of quick promotions in HSL. See, India, Estimates Committee (Third Lok Sabha), *Fifty-second Report*: *Personnel Policies of Public Undertakings*, New Delhi, Lok Sabha Secretariat, March 1964, p. 59; India, Committee on Public Undertakings (Third Lok Sabha), *Twenty-ninth Report: Durgapur Steel Plant of the Hindustan Steel Ltd.*, New Delhi, Lok Sabha Secretariat, April 1966, p. 32; and India, Ministry of Steel, Mines and Metals, *Report of the Committee of Enquiry on Durgapur Steel Plant (Hindustan Steel Ltd.)*, April 1967, (Chairman: G. Pande), New Delhi, Ministry of Steel, Mines and Metals, 1967, p. 59.

HSL did not attach that much importance to 'security of service' as was done either by the employees earlier working in 'private concerns' or those 'not in service'. This is because of the fact that the employees working in the Central Government, State Governments and public undertakings were not much worried about 'security' of their service. The Hindustan Steel Ltd. attracted them primarily because of 'foreign training' and 'promotion prospects'. These factors have, however, not been important for the employees coming from the private concerns or those 'not in service' before joining HSL. The state government employees were attracted to HSL because of better pay scales.

TABLE 2

Factors	*Ranking by the Employees coming from*				
	Central Govt.	*State Govt.*	*Public Under-takings*	*Private concerns*	*Not in service*
(*a*) Foreign training	1	2	1	3	4
(*b*) National outlook of the organisation	5	4	3	2	3
(*c*) Pay	3	1	5	5	2
(*d*) Promotion prospects	2	3	2	4	5
(*e*) Security of service	4	5	4	1	1
(*f*) Social life in the organisation	6	6	6	6	6

Because of the public sector's appeal to the talented persons for giving them a sense of participation in nation building activities and the satisfaction of serving a national enterprise, rather than a private one, competent men continue to be attracted by the public undertakings. Further because quite a number of competent persons are attracted by HSL due to the 'security of service', a lower remuneration for them as compared to private sector employees has been suggested. It is pointed out, "those who choose security may not reasonably aspire to the glittering prizes open to the persons who take risks".[13]

Manpower Planning

It was observed that the non-executives of the three plants think that they are 'under-staffed' [Coefficient of Association (CA) 0.550]. No

[13]India, Ministry of Finance, *Commission of Enquiry on Emoluments and Conditions of Service of Central Government Employees* (1957-59): *Report* (Chairman: Justice Jagannadha Das), New Delhi, Ministry of Finance, 1959, p. 85.

such association was observed in the attitude of the employees at other levels in any of the three plants.

On the whole, the employees of HSL are of the opinion that the man-power position is 'about right' at the non-executive and junior-executive levels; while it is 'over-staffed', to some extent at the middle and upper-middle levels.

Various studies so far conducted[14] in the plants have revealed that about 15 to 20 per cent of excess staff is being employed in the unskilled and semiskilled categories in the works departments; while about 5 to 10 per cent of excess staff is being engaged in administrative departments as peons and clerks. Elsewhere, the surplus staff was found to be only marginal. The Manpower Committee, appointed by the Company, to fix the 'standard force' for one million tonnes recommended 22,656 (112%) non-executives in excess of the one recommended in the project reports of the three plants. On the other hand, only 490 (24%) executives in excess were recommended.[15] Further, the actual strength for one million tonnes works out to be 8,965 (20.9%) non-executives and 87 (3.4%) executives in excess of that of the 'standard force' in the three steel plants. Thus, the view of the employees is against the observation of the studies that there is over-staffing at the lower levels. This has led to dissatisfaction among the non-executives, who feel that the axe for reducing the staff normally falls on them, whereas excess staff, in their opinion, is found at the upper levels.

Many (43%) of the employees at all levels have desired that a "re-assessment of the staff should be done on scientific basis". Some (34%) of them want that the "surplus staff eithar be absorbed in the future expansion programmes" or be "sent to the new steel plants". Very few (4%) employees, understandably, have supported the idea of "a ban on further recruitment", rather than 'retrenchment' for adjusting the surplus staff.

Recruitment

The employees of three steel plants of HSL were asked to comment upon the interview conducted at the time of their selection.

From the replies of the respondents it was revealed that:

(*i*) Greater emphasis was laid on 'personal history of the candida-

[14]Some of these studies were conducted by Industrial Engineering Departments of the respective plants; while others by the erstwhile Central Engineering and Design Bureau. A study was also conducted with the help of Administrative Staff College of India, Hyderabad. See, India, Hindustan Steel Ltd., *Sixteenth Annual Report* (1969-70), Ranchi, Hindustan Steel Ltd., 1970, p. 27.

[15]India, Hindustan Steel Ltd., *Statistics for Iron and Steel Industry*, Ranchi, Hindustan Steel Ltd., 1966, pp. 183-7 and Estimates Committee (Third Lok Sabha), *Fifty-second Report, op. cit.*, pp. 22-25.

tes' during the interview of the middle-level executives than in the case of others (CA 0.627);

(*ii*) No emphasis was laid on 'theory' in interviewing candidates for non-executive position [CA (—) 0.508]; and

(*iii*) Many (46%) of the non-executives and junior-level executives (32%) in the three plants looked at the interview as 'just a formality'. On the other hand, 15 per cent of the middle-level executives (and that too only in Bhilai) held such a view of the interviews.

By applying chi-square test, it was revealed that the reported emphasis in the interview is related to the level of the employees, as the observed value of chi-square was found to be 35,312, which is greater than 15.507, the tabulated value of chi-square at 5 per cent level of significance with 8 degrees of freedom.

An analysis of the replies made on the basis of 'sources of staffing' of the respondents revealed the following:

(*i*) Many (46%) of the employees working in the Central Government, before joining HSL, are of the view that greater emphasis was on 'personal history';

(*ii*) Interview was 'just a formality' for about one-third of the candidates working in the State Governments, before joining HSL; while others have expressed that 'practical aspects' and 'personal history' were also given weightage;

(*iii*) For about half of the candidates, working in some public undertakings and private concerns, the interview was 'just a formality' though about half of such respondents did think that 'theory' and 'practical aspects' also mattered; and

(*iv*) Most (53%) of the respondents who were 'not in service', before joinining HSL, have expressed that in their interview greater emphasis was laid on 'theory'.

Thus, the employees coming from the public undertakings or private concerns are of the opinion that the interview conducted at the time of their selection was 'just a formality'. In case of those coming from the State Governments or from the Central Government, emphasis has also been on 'personal history'. For those who were 'not in service', 'theory' was stressed upon. It is evident that while conducting interviews the background of the candidates is taken into consideration. The candidates, who had experience of some industries/organisation in the private or public sectors or of the government departments, are put questions relating to their experience. For such candidates therefore, emphasis is both on 'personal history' and 'practical aspects'. On the other hand, for the

candidates, who are fresh from colleges, greater emphasis is laid on 'theoretical aspects'.

The employees were asked to give a comparative view of the recruitment interview and selection procedure in HSL and other public undertakings. From the replies it was observed that:

(*i*) Many (34%) of the non-executives stated that their first interview was in HSL. But many others (30%) feel that the entire procedure of recruitment, interview and selection is 'much worse' and some (27%) of them think that it is 'slightly worse';

(*ii*) Many (45%) of the junior-level executives replied that the procedure is 'slightly worse'. However, some (27%) of such employees consider it as 'much worse'; and

(*iii*) Most (64%) of the middle-level executives responded that the entire procedure is 'slightly worse'. But some (31%) of such employees in Bhilai are of opinion that it is 'much worse' and only a few in Rourkela look upon the entire procedure as 'about the same'. None of them considered it as 'much better'.

Thus, on the whole, the employees have expressed their dissatisfaction with the entire procedure of recruitment, interview and selection. From the study of the candidates called for interview, those attending the interview and those joining the Hindustan Steel Ltd., it was observed that nearly two-thirds of the candidates actually called have been attending the interview during all these years. Further, about half of the candidates selected have been joining HSL. On the whole, about one-fifth to one-fourth of the candidates called for interview have been joining HSL. From an analysis of the records, it was observed that there have been many cases where even the appointment letters were issued nearly four or five months after the date of interview. Delay either in calling for the interview or sending the offers of appointment not only keeps the candidates in suspense, prompting many of them to join other organisations during the intervening period, but also creates a bad image of the administrative efficiency of the management among the prospective employees.

Since each graduate engineer has to execute a bond at the time of joining HSL to serve the Company for five years, after training failing which, the money spent on the training is recovered from the employees, such engineers were, therefore, asked if they were satisfied with the conditions of the bond.

Majority (76%) of them have expressed their dissatisfaction with it. Such respondents were further asked to specify reasons for their dissatisfaction. Some of them (11%) did not give any reason; while others have given divergent reasons for their reaction. Some (10%) stated that

"there is no provision to leave during the period of the bond on paying a proportionate amount"; an equal number of them thought that the "amount to be deposited on leaving is too high". Some of them (16%) opined that "the terms and conditions of the bond are strict and lead to frustration among the qualified and skilled executives". Others (24%) consider that "the conditions of the bond are more favourable to the management—it being one-sided and unilateral"; while a good many of them (29%, the highest percentage) feel that "the period of the bond is too long".

Further, they were asked, "If the condition of execution of the bond is waived, would you like to leave Hindustan Steel Ltd ?" Most (74%) of those dissatisfied with the bond responded with a emphatic 'yes'; while very few of them replied in negative. Thus, majority of the graduate engineers are not satisfied with the conditions of the bond and would like to leave HSL.

Engineers, who desired leaving the Company, if relieved of the condition of execution of the bond, were further asked to specify the organisation to which they would like to go. About ten per cent of them did not have any organisation in mind; while many of them (37%) expressed their inclination for some well-known private concerns and about 30 per cent for new public undertakings. A few of them (11%) intended going to foreign countries and still fewer (9%) wanted to do their own business in their native place. A very negligible percentage (3) opted for joining government departments.

Thus, the dissatisfied executives, after leaving the Hindustan Steel Limited want to join either private concerns or new public undertakings.

To know their reaction towards recruitment and selection procedure, the employees were asked as to how they would feel if their friends/relatives apply for a job in the Hindustan Steel Limited.

It was observed that most of the non-executives and junior-level executives are rather 'indifferent'; while almost half of the middle level executives are 'in favour, on the whole' or 'slightly in favour' of their friends/relatives applying for jobs in HSL.[16] On further analysis it was found that most of the respondents who answered 'strongly against' or 'slightly against' were such as were dissatisfied with the terms of the bond.[17]

Training

The employees were asked to express their views on the utility of

[16]Such views of the employees are independent of their being in any of the steel plants as the observed value of chi-square, 9.083 is less than 15.507, the tabulated value at 5 per cent level of significance with 8 degrees of freedom.

[17]The observed value of chi-square, 6.044, was found to be greater than 5.991, the tabulated value, at 5 per cent level of significance with 2 degrees of freedom.

their initial training in the Company. From their replies it was revealed that majority (71%) of the employees who received training are satisfied with it. They stated that the training was quite useful in several ways, like 'reducing the cost of end-products', 'increasing the production' and 'bringing in better management to the units'. The percentage of such employees is quite high in the case of middle-level executives both in Rourkela (74%) and Durgapur (81%). However, some employees of Bhilai (20%) consider their training as 'wastage of time and money' and that it has been of 'no substantial use'. The reaction is primarily due to the fact that graduate engineers from Bhilai, unlike other plants, are not being sent for training to the Management Institute at Ranchi.[18]

About 43 per cent of the junior-level executives (presently working as assistant foremen or foremen or holding equivalent posts), trained during the last five to seven years have expressed their dissatisfaction. The major reason for this discontentment, revealed on further probe into the matter, was that such respondents could not be sent abroad for training. But most of the middle-level executives (serving as assistant general foremen, general foremen or assistant superintendents or those holding equivalent posts) trained earlier, nearly ten years or so, are satisfied with the training programmes, because many of them had been trained in foreign countries.

Even though there is an improvement in training programmes, the employees are dissatisfied. Many of them, who were attracted to HSL because of elaborate foreign training programmes, on finding now that chances of training abroad are rather remote, have become disappointed. They are not being sent out because training facilities are now available either in the Company or in other plants in India.

An attempt was therefore, made to study the factors responsible for dissatisfaction with the training programmes. The same is represented in Table 3.

Table 3 clearly demonstrates that the attitude of the employees towards the initial training they received in/through the Hindustan Steel Limited is independent of level,[19] plant, nature of duties[20] and place of initial and post-employment training. But the attitude is dependent on the 'choice for placement' and 'actual placement' and 'period of training'.

[18]India, Committee on Public Undertakings (Third Lok Sabha), *Twenty-eighth Report: Head Office of the Hindustan Steel Limited (Ministry of Iron and Steel)*, New Delhi, Lok Sabha Secretariat, April 1966, p. 16.

[19]Though it was found to be independent at 5 per cent level of significance, it was observed to be dependent at 9 per cent level of significance.

[20]Though attitude of the employees towards training was observed to be independent of nature of duties of the employees at 5 per cent level of significance, it was found to be dependent at 22 per cent level of significance.

TABLE 3 ATTITUDE OF THE EMPLOYEES TOWARDS TRAINING AND ITS RELATION TO OTHER FACTORS

Factors	*Observed value of Chi-square*	*Degrees of Freedom*	*Tabulated value of Chi-square at 5% level of significance*	*Remarks*
Level of the employees	8.215	4	9.488	Independent
Plants	5.713	4	9.488	Independent
Nature of duties of the employees (Technical and Non-Technical)	4.332	2	5.991	Independent
Place of initial training	4.854	4	9.488	Independent
Post employment training	0.508	2	5.991	Independent
Choice for placement	14.705	2	5.991	Dependent
Actual placement (right/wrong)	20.843	2	5.991	Dependent
Period of training	34.769	4	9.488	Dependent

Further analysis was made to know the direction and degree of association between the factors found to be dependent. It was observed that those who expressed that their 'choice was taken for granted' for their placement regard their initial training received in/through the Hindustan Steel Ltd. of 'no use' (CA 0.660). But those who admit that their choice was taken into consideration for their placement consider the training 'of great use' (CA 0.577) and their present duties as 'more or less suited to their capabilities' (CA 0.505). Those whose choice was not taken into consideration for placement hold the view that their present duties are much/beyond their capabilities (CA 0.505). This is one of the factors responsible for lowering their performance. Further, those placed on the job for which they were trained, regard their initial training 'of great use' (CA 0.620). The demand for increase or reduction in the period of initial training is directly related to the views of the employees regarding its utility (CA 0.656) or futility (CA 0.741).

The foregoing analysis endeavours to demonstrate that whatever dissatisfaction the employees have in respect of the initial training they received in/through the Hindustan Steel Ltd. has been either due to the fact that their choice was not taken into consideration for placement after training or that they were not placed on the job for which they were trained. Since 'production incentive bonus', 'promotional opportunities' and 'professional satisfaction' are related to the department/unit in which the employees are placed, wrong placement is bound to lead to dissatisfaction.

Promotion

The employees were asked about their views on various aspects of promotion policy and its administration in the Hindustan Steel Ltd.

Frequency of Promotion

The employees were asked about the 'frequency of promotion'. From the replies it is observed that more than two-thirds of the employees in Rourkela regard the frequency of promotion as 'normal'. But majority of the non-executives and junior-level executives, both in Bhilai (65% and 58% respectively) and Durgapur (60% and 43% respectively) regard the same as 'slow'. However, all the middle-level executives in Bhilai and about half in Durgapur think that it is 'normal'. Very few of the employees consider the frequency of promotion as 'quick'.

It has been observed that response to the frequency of promotion is independent of the 'nature of duties' and 'background of the employees'.[21] It is, however, dependent on 'levels' and 'plants' of employees.[22] A close association was found in the case of middle-level executives viewing the frequency of promotion as 'normal' (CA 0.741). An association has also been observed in the case of employees of Rourkela reporting it as 'normal' (CA 0.540) and the employees of Bhilai reporting the same as 'slow' (CA 0·538).

It can, thus, be safely concluded that executives at middle-level regard the 'frequency of promotion' as 'normal'. Similarly, it can be inferred that the employees of the Rourkela Steel Plant consider the frequency as 'normal' and those of Bhilai as 'slow'. Various studies[23] have revealed that there are many cases of accelerated promotion in the Bhilai and Durgapur Steel Plants. This has been especially so with the middle-level executives. This indicates that even with a 'quick' rate of promotion, most of the employees have a tendency to regard the same as 'normal' and even 'slow'.

Disparity in the Rate of Promotion

The employees were asked if there was any disparity in the rate of promotion between different departments of the same plant or different plants of HSL or different undertakings in the public sector. It was observed that:

(*i*) Over two-thirds of the employees in all the three plants have stated that there is disparity in the rate of promotion among the

[21]The calculated value of chi-square, 27.751, is greater than the tabulated value of 9.488 at 5 per cent level of significance with 4 degrees of freedom.

[22]The calculated value of chi-squares, 64.877 is greater than the tabulated value, 9.488, at 5 per cent level of significance with 4 degrees of freedom.

[23]See footnote 12 *supra*.

departments of their respective plants;

(*ii*) A large majority (82%) of the employees of the three plants has also reported inter-plant disparity; and

(*iii*) Many (29%) employees 'do not know' of any disparity in the rate of promotion among the public undertakings. But nearly two-thirds of the respondents think that some disparity does exist.

The reporting of such disparities, by the employees, has been found to be independent of their 'nature of duties', 'background' and 'plants'. But it has been found to be related to the 'level' of the employees in respect of 'disparity between the departments'.[24] It was further observed that the middle-level executives feel that, between departments, there is disparity in the rate of promotion (CA 0.550).

Basis of Promotion

The employees were asked to express their opinion on the basis of promotion by pointing out the two most important factors (by ranking 1st and 2nd places) and the two least important factors (by ranking 7th and 8th places) out of the eight factors placed before them.

The analysis has revealed that there is not much variation in the percentage of employees, within the same levels of different plants, attaching importance to a particular factor for determining promotion.

Table 4 indicates the ranking, of all factors, by different levels of employees.

Thus, there is practically no difference in the opinion of the non-executives and the executives at junior level, who regard 'favouritism' and 'good relations with supervisors' as the main bases of promotion. Executives at middle-level, however, feel that 'technical/administrative competence' and 'academic qualifications' form the main bases of promotion.

Applying chi-square test, the 'basis of promotion' was found to be independent of the 'plants', 'background' and 'nature of duties' of the employees. It was, however, found to be dependent on the level of employees.[25] On further analysis the coefficients of association, given were observed.

On the basis of the coefficient of association, it is revealed that 'good relations with supervisors' is being regarded as the main basis of promotion by the non-executives. This is one of the causes of dissatisfaction among the non-executives. The junior-level executives think that 'senio-

[24]The calculated value of chi-square, 10.929, was found to be greater than its tabulated value, 5.991, at 5 per cent level of significance with 2 degrees of freedom.

[25]The calculated value of chi-square, 64.411, was found to be greater than the tabulated value, 23.635, at 5 per cent level of significance with 14 degrees of freedom.

rity' is the chief basis of promotion. The middle-level executives consider that 'maintenance of good labour relations' forms the principal basis of promotion.

TABLE 4

Non-Executive	*Executive (Junior)*	*Executive (Middle)*
1. Favouritism	Good relations with supervisors	Technical/Administrative competence
2. Good relations with supervisors	Favouritism	Academic qualifications
3. Hard work	Technical/Administrative competence	Experience in a particular field
4. Technical/Administrative competence	Seniority	Seniority
5. Experience in a particular field	Experience in a particular field	Good relations with supervisors
6. Academic qualifications	Hard work	Maintenance of good labour relations
7. Seniority	Academic qualifications	Hard work
8. Maintenance of good labour relations	Maintenance of good labour relations	Favouritism

TABLE 5

Level	*Factor*	*Coefficient of Association*
Non-Executive	Good relations with supervisors	0.510
Executive (Junior)	Seniority	0.515
Executive (Middle)	Maintenance of good labour relations	0.892

Promotion Procedure

The employees were asked to comment on the promotion procedure being followed in their department/plant. It was observed that:

(*i*) Most (69%) of the non-executives in the three plants regard the promotion procedure as either 'little unfair' or 'very unfair';

(*ii*) Similarly, most (56%) of the junior-level executives also consider the promotion procedure as either 'little unfair' or 'very unfair';

(*iii*) Most (59%) of the middle-level executives think that promotion procedure is 'fair, on the whole'; while to some (30%) of them it is 'little unfair'; and

(*iv*) Very few (6%) employees are of the view that the promotion procedure is 'as fair as possible'.

The analysis also revealed that the executives who joined during the early phases of operation/commissioning of the plants (presently working at the middle-level positions) had a speedier chance of promotion than those joining during the last four or five years. There have been quicker promotions in Durgapur and Bhilai as compared to Rourkela; it being the quickest in Durgapur.

Three factors have been responsible for such a rapid rate of promotion in the Hindustan Steel Ltd. Firstly, during the last decade and a half, the company has been expanding its activities and production enormously. Secondly, it was not possible for HSL to obtain from the already existing public undertakings or from the private sector, enough persons with requisite experience.[26] Thirdly, there has been a conscious effort to replace the foreign personnel.[27]

On further analysis it was evident that most of the employees of maintenance, construction and administrative departments regard the promotion procedure as 'little unfair' or 'very unfair'; while those belonging to production and service departments are comparatively more satisfied with the procedure.

An analysis on the basis of 'sources of staffing' has revealed that the majority of the employees who were previously 'not in service' and those who were in 'private concerns' look at the promotion procedure as either 'little unfair' or 'very unfair'. But majority of the employees, previously in the Central Government, State Governments or public undertakings consider the procedure as 'fair, on the whole'. This may be due to the fact that the employees of the latter category might have had the same procedure of promotion in their parent organisations as is prevalent in the Hindustan Steel Ltd.

Applying chi-square test, promotion procedure was found to be dependent/independent of the factors as mentioned in Table 6.

The factors found to be dependent were further analysed to find out

[26]In areas, like steel, where the personnel in the private sector in sufficient number were available, only 16 per cent, of the total requirement of middle-level executives of HSL could be provided by the Tata Iron and Steel Co. and the Indian Iron and Steel Company.

[27]The Rourkela Steel Plant has reduced the number of foreign technicians from 256 in 1963 to 37 in 1970, Bhilai from 200 in 1959 to 64 in 1970 and Durgapur from 90 in 1961 to 2 in 1969.

TABLE 6 CHI-SQUARE TEST SHOWING PROMOTION PROCEDURE, DEPENDENT/INDEPENDENT OF VARIOUS FACTORS

Factors	*Calculated value of chi-square*	*Degrees of freedom*	*Tabulated value of chi-square at 5% level of significance*	*Remarks*
Basis of promotion	152.384	14	23.685	Dependent
Promotion according to Rules	120.835	2	5.991	Dependent
Disparity in the rate of promotion between departments	55.811	2	5.991	Dependent
Disparity in the rate of promotion between plants	33.141	2	5.991	Dependent
Disparity in the rate of promotion between public undertakings	21.176	2	5.991	Dependent
Frequency of promotion	38.969	4	9.488	Dependent
Training as related to promotion	35.079	2	5.991	Dependent
Level of employees	14.158	4	9.488	Dependent
Background of the employees	9.110	8	15.507	Independent
Plant of the employees	0.891	4	9.488	Independent
Nature of duties	9.773	8	15.507	Independent

the coefficient of association. The analysis reveals that:

(*i*) The employees who regard the promotion procedure as 'very unfair' and 'little unfair' have pointed out that the 'favouritism' (CA 0.950) and 'good relations with supervisors' (CA 950) are the bases of promotion; those who consider it as 'fair, on the whole' feel that 'academic qualification' is the basis (CA 0.926) and those who think that the same is 'as fair as possible' are of the view that 'hard work' (CA 0.790) and 'technical/administrative competence' (CA 0.731) are the bases of promotion;

(*ii*) Those employees who are of the opinion that the promotion is being given according to Rules, regard the procedure 'as fair as possible' (CA 0.882) and 'fair, on the whole' (CA 0.888); but those who feel that the same is not being done according to Rules, consider the procedure as 'very unfair' and 'little unfair' (CA 0.924);

(*iii*) Those employees who responded that there is no disparity between departments in the rate of promotion, are of the view that the promotion procedure is 'fair, on the whole' (CA 0.699); but those who regard that there is disparity feel that the procedure is 'very unfair' and 'little unfair' (CA 0.855);

(*iv*) Those employees who feel that there is no disparity between plants in the rate of promotion consider that the procedure is 'as fair as possible' (CA 0.796); but those who feel that such disparity does exist regard the procedure as 'very unfair' and 'little unfair' (CA 0.779);

(*v*) Similarly, respondents for whom there is no such disparity between public undertakings feel that the procedure is 'as fair as possible' (CA 0.767); but those who regard that there is disparity say that the procedure is 'very unfair' and 'little unfair' (CA 0.737);

(*vi*) Such employees as are of the opinion that the frequency of promotion is 'slow' also regard that the procedure is 'very unfair' and 'little unfair' (CA 0.595); those who consider the same as 'normal' think that the procedure is 'fair, on the whole' (CA 0.538) and those who regard it as 'quick' feel that the procedure is 'as fair as possible' (CA 0.840);

(*vii*) The employees whose training was not related to promotion regard the procedure as 'very unfair' and 'little unfair' (CA 0.731); but those who feel the other way think that the procedure is 'as fair as possible' (CA 0.840); and

(*viii*) Middle-level executives hold the view that the promotion procedure is 'as fair as possible' (CA 0.514).

The discontentment created by the promotion procedure among the non-executives and junior-level executives has been due to a feeling that the promotions are not being made according to Rules and that there is disparity in the rate of promotion between departments/plants/public undertakings. Besides, they are of the view that the promotion rate is slow and their training is not related to promotion opportunities.

Remuneration

The employees were asked about disparity between the Hindustan Steel Ltd. and other public undertakings in the matter of 'pay', 'dearness allowance' and 'production incentive bonus' for similar positions. From the views of the respondents it was observed that:

(*i*) About two-thirds of the employees feel that, as compared to other public undertakings, they are being given 'about the same' pay, dearness allowance and production incentive bonus;

(*ii*) Some (22%) of the employees, mostly non-executives and junior-level executives, think that they are getting less dearness allowance compared with that being paid by other public undertakings; and

(*iii*) Some (23%) of the employees, more so in Bhilai and Durgapur

have responded that they do not know about the production incentive bonus being paid in other public undertakings; while others (17%) consider that, as compared to other public undertakings, they are receiving less bonus.

The employees were also asked about the disparity between the Hindustan Steel Ltd. and private concerns in respect of 'pay', 'dearness allowance' and 'production incentive bonus' for similar positions. From the opinion of the respondents it was revealed that:

(*i*) About two-thirds of the employees have expressed that, as compared to private concerns, they are being 'under paid' in respect of 'pay', 'dearness allowance' and 'production incentive bonus'; and

(*ii*) However, some (26%) of the employees think that their emolumens in terms of 'dearness allowance' and 'production incentive bonus' are 'about the same'.

Thus, it can be safely concluded that majority of the employees of the Hindustan Steel Ltd., at various positions, feel that they are receiving 'about the same' remuneration as compared to similar positions in other public undertakings, but are being 'underpaid' when compared to similar positions in private concerns.

Comparing the pay scales of middle and junior-level executives, it was revealed that the Hindustan Steel Ltd. lags behind only some of the wellknown, especially foreign private concerns.[28] but is paying nearly the same remuneration and in some cases, even higher, as compared to private concerns.[29]

Another study was conducted to know the comparative position in respect of pay scales, dearness allowance, house rent allowance, city compensatory allowance, conveyance allowance and other allowances in some of the public undertakings. Based on the data, total salary (including all comparable allowances) was calculated at various points of pay scales. The results of the study indicate that:

(*i*) Within public undertakings there is a considerable uniformity of pay scales (with minor variations in annual increments) and dearness allowance;

(*ii*) There is wide disparity in the house rent allowance and conveyance allowance;

[28]Concerns like Burmah-Shell, Imperial Chemical Industry, Hindustan Lever and Stanvac.

[29]The study, in detail, was made on the basis of advertisements appearing in the newspapers.

(*iii*) The total emoluments in HSL, up to the basic salary of Rs. 600 per month, are much less than in Indian Oil; but thereafter, the position is reversed; and

(*iv*) As regards total emoluments, Air India is leading HSL after the basic salary of Rs. 800 per month.

Thus, the pay of the middle and junior-level executives in the Hindustan Steel Ltd. compares favourably with similar positions in most of the other public undertakings. However, some of the older and 'departmental type' of undertakings are keeping lower pay scales and giving less allowances.

On further analysis of the replies, the following significant associations were observed:

(*i*) The middle-level executives feel that they are being paid 'about the same' dearness allowance (CA 0.711) and 'production incentive bonus' (CA 0.593) when compared to similar positions in other public undertakings;

(*ii*) The employees who were working in other public undertakings before joining HSL consider that they are receiving higher pay as compared to similar positions in other public undertakings (CA 0.523); and

(*iii*) The employees who were engaged in private concerns before joining HSL are of the view that they are drawing 'about the same pay' (CA 0.700) and dearness allowance (CA 0.521) as compared to similar positions in private concerns.

Thus, the employees coming to the Hindustan Steel Ltd. from other public undertakings consider—a view which must be given weightage—that they are being 'overpaid' as compared to other public undertakings. This was the reason of their joining the Hindustan Steel Ltd. The employees who were in private concerns feel that they are getting 'about the same' pay and dearness allowance.

Inducement to Production Incentive Scheme

The employees, to whom the scheme applies, were asked as to what extent they are induced by the production incentive scheme. The analysis of the replies revealed the factors dependent/independent of the inducement by the scheme. The same is indicated in Table 7.

The factors found to be dependent were further analysed to know the direction and degree of association. The analysis reveals that:

(*i*) Those employees who feel that they are receiving lesser production incentive bonus as compared to similar positions in other

TABLE 7 CHI-SQUARE TEST SHOWING INDUCEMENT BY THE PRODUCTION INCENTIVE SCHEME AS DEPENDENT/ INDEPENDENT OF OTHER FACTORS

Factors	*Calculated value of chi-square*	*Degrees of freedom*	*Tabulated value of chi-square at 5% level of significance*	*Remarks*
Production incentive bonus as compared to public undertakings	50.134	4	9.488	Dependent
Production incentive bonus as compared to private concerns	0.174	4	9.488	Independent
Factors for inducement	43.451	4	9.488	Dependent
Plants	13-980	4	9.488	Dependent
Level of the employees	9.668	2	5.991	Dependent
Nature of duties	8.633	4	9.488	Independent

public undertakings, have pointed out that they are 'not all' induced by the production incentive scheme (CA 0.922). But such employees who think that they are being 'overpaid' are of the view that they are 'very much' induced (CA 0.757);

(*ii*) The employees who are induced very much by the scheme regard 'good chances of promotion' as the main basis of their inducement (CA 0.760);

(*iii*) The employees of the Bhilai Steel Plant are induced 'to some extent' by the scheme (CA 0.692); and

(*iv*) The non-executives are 'not at all' induced (CA 0.573); whereas junior-level executives are induced 'to some extent' by the scheme (CA 0.536).

Thus, the dissatisfaction with the scheme is due to the lower rate of production incentive bonus. Apart from financial benefits, promotion opportunities also act as a great incentive increasing production. Employees of Bhilai, because of higher production, are satisfied with the scheme.

Though all the three steel plants follow the same scheme, dissatisfaction among the non-executives and junior-level executives was observed only in Durgapur. This is because Durgapur has been suffering from unprecedented and persistent labour troubles, particularly before and during the General Elections, 1967. Office bearers of two main rival

unions were candidates for election to the State Legislature.[30] This has adversely affected the production and consequently the remuneration to be paid under the production incentive scheme. It has been estimated that during 1960-1970, the plant, on an average, had 'labour productivity' of 53.5 tonnes of steel ingots per employee, of the works departments, per year. The extent of plant utilisation during the same period had, on average, been only 64 per cent.

The reason for the dissatisfaction in the maintenance departments, and more so in the service departments, is the lower rates of 'production incentive bonus' in these departments. Further, since the production incentive bonus is related to the production departments, it does not provide direct incentive to the employees working in the maintenance and service departments.

The employees were also asked to express their views about initiative on the job, professional satisfaction, guidance from supervisors, competence of the supervisors, discipline in the units, socio-physical working environments, public image of the Hindustan Steel Ltd. as compared to other public undertakings and criticism, among the employees, of the personnel policies and practices of the Company.

On analysis the following significant associations were observed:

(*i*) The non-executives feel that their jobs provide 'very little scope' for initiative (CA 0.518);

(*ii*) The middle-level executives think that their supervisors are 'competent' (CA 0.560);

(*iii*) The employees who were working in private concerns earlier have pointed out that 'social and welfare amenities' have been well provided to them (CA 0.503);

(*iv*) The respondents, who were working in public undertakings before joining HSL are of the view that the employees are disciplined (CA 0.533);

(*v*) The middle-level executives feel that public image of HSL as compared to other public undertakings is 'much better' (CA 0.714); while the non-executives think that the same is 'slightly worse' (CA 0.513); and

(*vi*) The non-executives have pointed out that the criticism, among the employees, of the personnel policies and practices of the Company is 'rare' (CA 0.605); while the middle-level executive think that such criticism is 'frequent' (CA 0.503).

SUMMING UP

Despite stiff competition with the private sector steel plants, the

[30]See, India, Hindustan Steel Ltd., *Thirteenth Annual Report* (1966-67), Ranchi, Hindustan Steel Limited, 1967, p. 22.

Hindustan Steel Ltd., has been able to attract sufficient number of available qualified persons due to its progressive personnel policies, adequate pay, ample opportunities for promotion and elaborate training, especially foreign training programmes. But owing to defective and wrong implementation of the personnel policies, many of the employees are not only dissatisfied but are anxious to leave the Hindustan Steel Limited. As such, it has not been able to fulfil one of its important personnel objectives, namely, "developing and sustaining a favourable employee attitude and obtaining maximum contribution of employees through...job satisfaction".[31]

This is because, there has been a sudden and tremendous increase in the activities, volume of investment and employment in the Hindustan Steel Ltd. But proportionately less attention has been paid towards personnel administration to cope with the increased work.

Keeping excess staff has not only resulted in low 'labour productivity', high 'labour cost' and consequently losses but it has created dissatisfaction among the employees.

Owing to unplanned 'staffing policy', there has been a sharp increase in the number of Graduate Engineers selected in 1965 and 1966. This affected the training loads of the plants and created administrative problems relating to promotions. Handling large number of candidates, for interview and appointment, had adversely told upon the administration of recruitment section. As a result of it, not many candidates appeared for interview or joined the Hindustan Steel Ltd. Many of the serving junior executives are, therefore, dissatisfied with the interview and selection procedure.

The middle-level executives, who joined during the earlier phases of the Company, had foreign training, proper placement and quicker promotions, have expressed their satisfaction with the personnel policies and practices. But junior executives not having such privileges have shown their dissatisfaction. Such executives who are finding a comparatively lower rate of promotion are strongly critical of the promotion policy and procedure of the Company. They have pointed out that promotions, by and large, are based on 'good relations with supervisors' and 'favouritism'.

Since the rates of promotion are lower in maintenance, construction and administrative departments, their employees are comparatively more dissatisfied than those in other departments. The employees, who were in private concerns or were 'not in service' before joining the Hindustan Steel Ltd. are dissatisfied with this aspect of personnel administration

[31]The Board of Directors of the Hindustan Steel Ltd. in its meeting held on 26 February 1970 at Ranchi adopted objectives, towards employees along with those of the Company. For objectives see India, Hindustan Steel Ltd., *Sixteenth Annual Report* (1969-70), Ranchi, Hindustan Steel Ltd., 1970.

as the rate of promotion has fallen short of their expectations. On the other hand, persons coming from government service or public undertakings are satisfied because of better promotion prospects in the Company.

It has been observed that the employees of Durgapur Steel Plant and of maintenance and service departments in all the three steel plants are more dissatisfied with the production incentive scheme than other employees. In the case of the former, it is due to labour disturbances, adversely affecting production and resulting in a paltry bonus. In the case of the latter, it is because of lower rates of bonus than in other departments.

Thus, foreign training and promotion prospects have been found to be important variables in the satisfaction of the employees of the Hindustan Steel Ltd. Lack of initiative on the job, indiscipline in the plants, public image of the Company being worse than that of other public undertakings and socio-physical working environments not being 'adequate' have contributed to dissatisfaction among the employees. □

Choosing Chief Executives (For Government Undertakings)—Ideologists, Specialists or Generalists?*

S.S. Patil

THE PRIME MINISTER, Smt. Indira Gandhi, addressing the heads of the public sector undertakings observed:

> All these years we have taken up important programmes publicly but we have put at the head of these undertakings men who were not fully involved but thought it was only another job. We cannot simply afford that sort of attitude.[1]

She desired that all those who were concerned with the public sector projects should be "deeply involved, deeply committed". These views of the Prime Minister raised up a great controversy in the country because it was thought that Smt. Gandhi desired to politicize the civil service.

Narula deprecated the tendency to "confuse the question of commitment of Civil Services to the socialistic doctrine as propounded by one ruling party or another with the common complaint that civil servants show little regard for the welfare and convenience of the poor are not really concerned about achieving results and are skeptical of the democratic process". He further observed: "In the Indian context, the civil servants need to have a commitment to the high principles of public good as embodied in the Constitution, namely, promotion of justice—social, economic and political and the Directive Principles of State Policy."[2]

*From *Indian Journal of Public Administration*, Vol. XVIII, No. 1, 1972, pp. 7-35.

[1]Indira Gandhi's address to the heads of public sector undertakings at New Delhi, *Sunday Standard*, July 20, 1969.

[2]B.S. Narula, "Role of Civil Services in Administration—Challenge of 1970's", *The Times of India*, January 26, 1970.

Prime Minister, Smt. Gandhi, in her inaugural address at the Golden Jubilee Celebrations of the Institution of Engineers, complained that her views on "committed Civil Service" had been "mis-interpreted". She clarified that she did not want civil servants to support her or her political ideology. She wanted them to be "committed to the objectives of the State, which had been approved by the Parliament"[3]

Smt. Gandhi's views are realistic and should be acceptable to all. But there is reason to believe that her colleagues in the Central Cabinet and the Congress party (R) do not seem to subscribe to her views on this subject fully because Shri Jagjivan Ram in his address to the Bombay Plenary Session, clearly advocated for committed Civil Service—"committed to the ideology of democracy, socialism and secularism"[4]. Also while translating the basic idea into practice the "commitment to socialism" is alleged to be considered as the sole qualification for appointments to high posts in the government.

Mohan Kumaramangalam, till recently a card-holder member of the Communist Party of India replaced Bharat Ram as the chairman of the Indian Airlines Corporation. R.K. Hazari, described in a journal[5] that the "Congress Party Philosopher" was appointed Deputy Governor of the Reserve Bank of India and his predecessor Shri A. Bakshi "was installed as the secretary of the newly created Department of Banking Operations of the Finance Ministry". He is said to have superseded some senior officers, mainly on the strength of his socialistic bearings.

Somasundaram[6], a well meaning Member of the Parliament, addressed a letter to the Prime Minister on the subject of the choice of general managers of the public sector undertakings and heads of technical departments. He said:

> At present the Indian Administrative personnel are placed as general managers of Public Sector Undertakings and other technical departments. This had created...frustration among the technical personnel arising from compulsion to serve under generalist overlords.

[3]Indira Gandhi's address at the Golden Jubilee Celebrations of the Institution of Engineers, *The Times of India*, February 6, 1970.

[4]Jagjivan Ram's Presidential Address to the Bombay Plenary Session of Congress (R) Party, *The Times of India*, January 13, 1970.

[5]A "Current" reader "on the appointment of the New Deputy Governor, Reserve Bank of India", *The Current*, December 6, 1969.

[6]S.D. Somasundaram's letter dated May 14, 1969 to the Prime Minister—text published in *Engineering Times*, August 15, 1969.

He suggested to the Prime Minister as follows:

> Only technical personnel having sound technical knowledge and wide administrative experience should be placed at the helm of affairs of technical organizations, *i.e.*, public undertakings, steel plants, aluminium plants; Ministries like Works, Housing and Supply, Irrigation and Power, Steel, Mines, Metals, Communications, etc.

Somasundaram, in his letter, also requested the Prime Minister "to issue a general directive to the different Ministers...to the effect that top administrative posts in such technical Ministries should be manned *invariably* by the qualified technical personnel".

A technical journal joined hands with Somasundaram and launched an active campaign to secure government's acceptance of his views.[7] Somasundaram's views invoked wide and unqualified support from prominent MPs, and some State and Union Ministers. The technical journal published scores of letters under the caption "Ministers and MPs Support Engineers' Cause".

The Administrative Reforms Commission (ARC) dealt with the 'generalist-specialist' controversy in its Report on 'Personnel Administration'.[8] It observed: 'the generalist has his place and an important one at that, in the scheme of things; but so has the specialist, the scientist and the technologist". It emphasised "the need for specialization and what is more the need for specialised skills in higher administration".

V. Shankar, a member of the ARC, in his dissent note to the Commission's Report, stated that "as regards the outline of reform and the need for specialisation, I feel that the scope for a specialist in the present administration is generally over emphasized".[9]

THE PROBLEM

The problem of choosing chief executives is complex and has evaded a clear-cut 'formula' notwithstanding vast research by experts in management science. It is the purpose of this article to establish some guidelines that may not always ensure a correct choice but would increase the probability of the selection being right.

It is not, however, intended here to isolate a 'typical personality' suitable for becoming a chief executive, though the discussion might be helpful in that respect too. It is obvious from the discussion in the

[7]*Engineering Times*, Calcutta, August 15, 1969, and October 1, 1969.

[8]Administrative Reforms Commission, *Report on Personnel Administration*, Delhi, Manager of Publications Government of India, p. 27.

[9]*Ibid.*, p. 159.

preceding section that according to the current thinking in this country, there are three broad species contending for the chief executive's post, *viz.* ideologists, generalists and specialists. An attempt is, therefore, to be made to select one of the three species.

THE APPROACH

The elements of the approach to a solution of this complex problem are:

1. Define, in general, jobs of the chief executives.
2. List and describe the qualities and skills necessary to perform these jobs successfully.
3. Verify if ideologists, generalists or specialists are more likely to possess majority of the qualities and skills.
4. Test the conclusion against experience and practice in the advanced countries.
5. Obviously, none of the three species would be an ideal choice. Therefore, attempt will be made to locate major disadvantages of selecting a particular species and suggest ways and means to mitigate these.

THE DEBATE

Jobs of Chief Executives

The techniques of job analysis and description are imperfect. At the lowest level, there is hardly anything to describe, while at the highest level one's vocabulary is stretched to the limit to describe responsibilities, jobs and tasks which are complex and far too many. When it comes to describe the jobs of the chief executives in general, the difficulties multiply for, after all, being 'the chiefs' there are no conventional or other restrictions on their activities. This predicament can best be realised from Allen's following observations:

> The President of one Chemical Company, for example, personally approves $2 weekly salary increases for clerical positions. The President of another, somewhat smaller company, reviews increases only on salaries of $10,000 or more a year.
>
> The President of a $250 million company with headquarters in New Jersey opens and routes his own mail.[10]

Considering the varying nature of business enterprises and diversity of personality traits, one is apt to feel helpless. Nevertheless, since it is the

[10]Louis A. Allen, *Management and Organization*, New York, McGraw Hill, 1958, p. 4.

basic requirement of this article to list major jobs of the chief executives, attempt has to be made, keeping in mind the above mentioned limitations.

It is possible to get a fairly good idea of the nature of the chief executive's work from his position in the company organisation. Hurley says:

> This individual stands between the board of directors above him and the subordinate officers and employees below him. He is the main centre of communications and often times the only contact between the governing board and the management.[11]

Therefore, it can be safely said that the chief executive is responsible for the overall activities of a company and management's work is his work. The work of the management according to Drucker is "to manage a business, manage managers and manage workers and work".[12]

Every company or corporation has some definite economic and social objectives and it is, the main duty of the chief executive to strive to achieve these objectives. It is, of course, implicit in this that setting up new objectives and modifying the old ones is part of his work, for the common objective is 'progress' which is antithetic to statics.

The work involved in attaining the social and economic objectives of any sizable company is so tremendous and complex that it can be done only in cooperation with people, may they be workers, managers, government officers or politicians. Therefore, Koontf rightly considers "getting things done through and with people" as the principal job of the chief executives.[13]

In the process of managing business, managers, workers and work, the chief executive has to take series of decisions. The very concept of management is characterised by its concentration on decisions. To quote Richards and Nielander "planning, controlling" organising and other managerial functions or process can be considered as different areas for decisions".[14]

Therefore, a group of experts known as the 'decision theory school of management' consider "taking decisions and right decisions of course" as the prime function of the chief executives or for that matter any executive.

[11]Morris E. Hurley, *Business Administration*, New Delhi, Prentice-Hall of India, 1964, p. 373.

[12]Peter F. Drucker, "The Nature of Management", *in* M.D. Richards and W.A. Nielander (eds.), *Readings in Management*, Bombay, D.B. Taraporevala, 1967, p. 32.

[13]Harold Koontz, "The Management Theory Jungle", *in* M.D. Richards and W.A. Nielander, *op. cit.*, p 17.

[14]M.D. Richards and W.A. Nielander, "Decision-Making", *in* Richards and Nielander, *op. cit.*, p. 212.

There are voluminous writings, listing and describing the numerous functions of the chief executives. It is not necessary for the limited purpose of this article to enumerate all these activities of the chief executives. However, to show that all these functions fall in one of the above mentioned three categories, it is necessary to mention these in passing.

Copeland has taken special pains to shape an image of the 'model' executive. His work is full of rare insights gained during "forty years of case gathering and observation of business practice".[15] Hurley has organised the model of the executive as presented by Copeland into following fourteen points:[16]

1. winning authority,
2. meeting test,
3. securing acceptance,
4. obtaining teamwork,
5. developing talent,
6. exercising leadership,
7. facing facts,
8. performing unpleasant task,
9. keeping perspective,
10. defining jobs,
11. setting policies,
12. keeping informed,
13. keeping the wheels turning, and
14. making decisions.

It is evident that all these points or any other lengthy list of activities of the chief executives are nothing but a mere breakdown of the main tasks explained earlier.

The main jobs of the chief executives can, therefore, be grouped into five types shown in Table 1.

Qualities and Skills of Chief Executives

There is a surprisingly little agreement amongst the management experts regarding qualities of a successful chief executive. Moreover, the traits of a model executive listed by psychologists or some employers are shockingly at variance with the observed facts.

The qualifications which Owen D. Young, the founder of Radio Corporation of America (RCA), thought 'must be' possessed by a man

[15]Melvin T. Copeland, *The Executive at Work*, Cambridge, Harvard University Press, 1951.

[16]Morris E. Hurley, *op. cit.*, pp. 379, 380, 381 and 382.

TABLE 1 JOBS OF CHIEF EXECUTIVES AND QUALITIES AND SKILLS REQUIRED

Sl. No.	*Type of Jobs*	*Quality*
1.	Setting up objectives and reviewing them constantly	Commitment
2.	(*a*) Formulating policies and programmes for attainment of objectives	Knowledge
	(*b*) Organising human and material resources to implement the programmes	Knowledge
3.	Leading the organisation to success	Leadership
4.	Taking quick and right decisions	Judgment

who would assume responsibilities of the chief executive of RCA stretches one's credibility. The specifications presented by Young were:

> *1st*: He should be well-known both nationally and internationally and he should have made such a place for himself as would enable him to speak with authority either to a foreign government or to our own government.
> *2nd*: He should not have been previously identified himself with politics because that would mean party alignment and partisan reaction.
> *3rd:* He should not have been identified with Wall Street and the money interests because it is important that the American people should accept the Radio Corporation as an Organisation for service to American interests both at home and abroad rather than as an organisation to make a profit for Wall Street interests.
> *4th:* He should have had administrative experience and if possible business experience.
> *5th:* He should be well known in Washington and in a position to appear before committees of congress and before the departments and have his statements of facts accepted without question. It is particularly important in this connection that no one should be able to question his Americanism, such as they have done in several instances in the case of our international bankers.
> *6th:* He should be a man of public position to whom attack would be bad politics rather than good politics.[17]

Finding an executive fulfilling specifications drawn by Young is a

[17]. Owen D. Young, Letter of Edward J. Nally, dated October 25, 1922—extracts taken from Morris E. Hurley, *op. cit.*, p. 350.

formidable task and it was so for himself, because "his candidates uniformly failed to meet the specifications". He finally settled on Major General Harboard. All the same, Young's specifications are helpful in solving the problem.

Instead of getting lost in the model building, it is important here to list only major qualities required to perform the types of the jobs listed in Table 1.

Inevitably, there will be overlapping of qualities required to do each type of job. However, to simplify the matter, only such attribute which has outstanding importance in performing each type of job is mentioned in Table 1.

It must be stated that qualities besides those listed in Table 1, *viz.*, intelligence, creativity, perseverance, ambition, drive, etc., are common to all the three species and without these no one would be even considered for the post of the chief executive. These will not, therefore, be included in the discussion.

The qualities listed in Table 1 are general and in vague terms. Each one of them implies many similar attributes. There is little agreement regarding their nature and content. It is, therefore, necessary to define their meaning in the context of the present topic.

Commitment

Full commitment to the ideology of a party in power is thought to be highly desirable because:

(*a*) It inspires crusading spirit in the chief executives to achieve the overall social and economic objectives, which have direct bearing on the ideology and its success.

(*b*) It obviates constant vigil by the members of the party or cabinet to ensure that programmes are drawn and implemented in keeping with the ideology.

(*c*) It eliminates complicated motivational techniques to inspire and impel chief executives to put forth the best in them. They would automatically do their best as their ideological convictions, besides career prospects, are at stake.

(*d*) It would help in formulating and improving the overall programmes and objectives as the committed chief executives would give valuable feed-back information.

All the above mentioned assumptions are valid only under ideal conditions. In reality, crusaders or fully committed men and women are a rare commodity. The few that are available would naturally prefer to work in the party apparatus instead of getting bogged down to comparatively routine work of running factories. Moreover, project management,

being a pedestrian task, does not offer the kind of inspiration required to keep up the crusading spirit of even fully committed members.

Therefore, it was found inevitable even in the Soviet Union to use material incentives to motivate managers to produce best results. This can be taken as a positive proof of untenability of the above mentioned assumptions because most of the managers of the Soviet factories are members of the Communist party. Lenin had to declare "production should be organised so as not to depend on moral stimuli alone, but these moral stimuli should be bolstered by material incentives".[18] Richman observes:

> The Soviet regime encourages capable, intelligent persons to pursue managerial career by providing basic salaries well above the national average and by providing those who reach the top rungs of the management ladder with fringe benefits such as a company car and favoured housing. The regime also deems it necessary to provide additional incentives compensation to spur managers to maximum efforts in the 'best interests' of the State.[19]

In a multi-party democracy, there is additional difficulty in recommending or choosing supporters of the ideology of the party in power as chief executives because there is every possibility of another party, with diametrically opposite principles, coming to power. In such an eventuality, there will be undesirable reshuffle. It can be argued that even in the private companies 'many heads roll' with change 'in management'. But the frequency is not or would not be so high because politics is inherently fickle and more so in these days. Moreover, there is utter scarcity of managerial talent and it would not be possible for any party to find enough replacement. If ideological considerations become the sole determinant of suitability for high posts, a situation will arise when 'chameleons' would wangle their way to the top; thus defeating all the purposes.

Commitment was, therefore, considered necessary only for the job of setting up social and economic objectives and formulating a programme. Under the system prevalent in this country, broad social and economic objectives of state enterprises are determined by the Cabinet, and Planning Commission to some extent. If the objectives of an enterprise are given to and not determined by chief executives, full commitment to the ideology of the party in power does not seem to be necessary.

It does not, however follow that ideological considerations are irrelevent to the issue of choosing chief executives of the government undertakings. There is a possibility that an otherwise efficient executive not

[18]Lenin, quoted by Barry M. Richman, *Soviet Management*, Calcutta, Scientific Book Agency, 1965, p. 132.

[19]*Ibid.*, p. 132.

only lacks faith in the ideology but is opposed to it. It will be difficult to force such a person to formulate or even vigorously implement the new programmes based on a particular ideology. Lack of faith in or opposition to an ideology would definitely militate against such person's devoting to the success of the enterprise. This negative aspect is equally important.

Depending on the degree of commitment or opposition to a particular ideology, all people can be divided into the following categories:

1. *Crusaders*: Hundred per cent commitment and ready to stake everything, including life and livelihood, for the sake of success of ideology or policy.
2. *Sympathisers*: Generally believe in the ideology or policy but may have some reservations. Also not willing to take extraordinary risks. Many times prefer to conceal the faith.
3. *Neutrals*: Have no ideological axe to grind. Willing to do any job assigned to the best of their ability to make their own career. Successful mainly in respect to power and money.
4. *Conscientious Objectors:* Have no faith in the ideology but would prefer to do jobs selectively. May create difficulties at times by withholding efforts but would desist from wrecking efforts of others.
5. *Antagonists*: Openly opposed to the ideology. Would attempt to secure rejection of the ideology in preference to the alternative one but such efforts are constitutional.
6. *Saboteurs*: Deadly opposed to the ideology. May express interest and even participate in programmes outwardly with a view to sabotaging.

It is possible now to conclude this section by stating that:

(*i*) Full commitment to the ideology of party in power is not a necessary qualification for chief executives.

(*ii*) Any party or its government would, and there is no reason whatsoever why they should not, scrupulously bar entry of antagonists and saboteurs to the high offices and avoid conscientious objectors as far as possible. Smt. Gandhi is, therefore, fully justified in declaring that "obviously you cannot put those people in charge of public sector projects who do not subscribe to the philosophy of public sector".[20]

(*iii*) In the multi-party democracy adopted by us, 'neutrals' should

[20]Indira Gandhi, *The Times of India*, February 6, 1970.

be preferable, though, other things being equal, 'sympathisers' would do better.

Knowledge

Knowledge required to become successful chief executive is not akin to 'scholasticity' or walking encyclopaedia. Management values or should value knowledge only to the extent it is helpful in producing desired results. Drucker rightly says, "achievement rather than knowledge remains of necessity both proof and aim,"[21] as far as management is concerned.

Nevertheless, there is no denying the fact that chief executives must possess knowledge of all aspects of a business. McGregor believes that if the executive has to play his role effectively he should have knowledge of all the related disciplines.

He says:

> The development of scientific knowledge brings pressure to bear upon the manager's performance of his role...the systematic and rapid accumulation of knowledge in all the disciplines that have relevance to management is a major phenomenon of our time. Behavioral science knowledge is one example, but others are no less important. Computer technology, applied mathematics, statistics and symbolic logic, most of which have hitherto been of relatively small concern to the manager, are becoming highly relevant. As industrial firms become international in character, they must acquire additional knowledge in political science, history, anthropology, economics and perhaps also philosophy and ethics.[22]

Even a genius, who has no experience of management or industry will shudder to read the above mentioned list. It must, therefore, be made clear that manager's knowledge of these areas is not the same as that of the experts in each one of these. The basic principle that needs to be understood is that managing a function is not the same as performing it. The chief executive is not required to have detailed systematic knowledge of each area. He must be familiar with each to the extent required to distinguish between right and wrong.

Branch believes that the chief executives cannot play their role effectively "without minimum comprehension" of each area. He observes:

> Unless he (chief executive) has sufficient background knowledge to

[21]Peter F. Drucker, *in* Richards and Nielander (eds.), *op. cit.*, p. 26.

[22]Douglas McGregor. *The Professional Manager*, Calcutta, Scientific Book Agency, 1967, p. 52.

> appraise the material critically by asking appropriate questions, he cannot test its accuracy or inclusiveness, request corrections or suggest constructive improvements. Without this minimum comprehension, he is in effect making decision to others, would of course constitute a serious abrogation of his basic responsibility."[23]

It is impossible for any one to be equipped with even "minimum comprehension" of all the areas involved in management of a company, before starting his career. Moreover, some of the subjects are bound to change with the nature of the business of different companies. Therefore, what is to be emphasised is not the initial level of the knowledge but a person's capacity and willingness to learn more not only in the familiar areas but also in new and different ones.

Leadership

The chief executive's prime responsibility, as observed above, is to "get things done through and with people". What he gets done is therefore, more important than what he does himself. His success, and consequently that of the organisation that he heads, depends on the achievements of people he leads; and the people's achievements depend on leader's capacity to direct and motivate them.

There are two main methods of directing and motivating people; autocratic and democratic. The industrial management was characterised by autocratic leadership till recently. However, due to growing complexities of business world, rise of strong trade unions and scarcity of competent skilled hands, it is unlikely that an autocratic leader can succeed as chief executive. The chief executive, therefore, to be able to manage democratically, must be a shrewd judge of human motives and personalities. He ought to spend much of his time in studying and knowing well his team. He cannot neglect their individual and collective welfare. It may not be sufficient only to introduce good welfare schemes and sanction money. While remaining aloof, his attempt should always be to get familiar with most of them, know their individual problems and help in solving them. In short, he should be a 'people-minded' man and should always keep up the morale of his team.

Advent of computers and other management tools have revolutionised the nature and content of the jobs of chief executives and also the entire field of management. These tools being available to all the companies, most of the routine work can be done or got done with more or less uniform efficiency. With adequate training, more than one person can display equal efficiency in managing routine business of any one

[23]M.C. Branch, "Logical Analysis and Executive Performance", *in* Richards and Nielander (eds.), *op. cit.*, p. 246.

company. Therefore, only a chief executive, with uncommon innovating skill and foresight, can maintain leadership and play his role effectively. These are the two attributes of a chief executive which can save his company from decadence and obsolescence. Obsolescence or decadence is possible due to setback in any area, products, markets, organisation, raw materials, technology, finance, public and employee relations, etc. Obviously, innovation and foresight must embrace the entire field of the activity. President Gardiner of the General Electric rightly considered "the hallmark of leadership as the ability to anticipate the reasonably foreseeable needs of tomorrow and beyond tomorrow with at least some degree of clarity and confidence".[24]

The subject of leadership is vast and perhaps most controversial. There are voluminous works outlining the attributes of good leaders. The important ingredients of an industrial leadership are explained above. To make the list fairly complete, a single paragraph from Field Marshall Montgomery's work comes handy. According to him:

> To be great, to be a person of stature, a person must have character, judgment, high intelligence, a special aptitude for seeing his problems whole and true—for seeing things as they are without exaggeration and emotion—and above all the ability of decision, the right decision of course.[25]

Ability to Make Decisions

Maximum of management literature is devoted to decision making. It is ironical indeed that more often than not the emphasis is on techniques and tools used in the process, and the basic abilities and skills required are relegated to the background. Perhaps to magnify importance of the various aids, the decision making process is reduced to finding the best solution to a problem, which is taken for granted.

The basic abilities and skills have perhaps been obscured by the techniques and tools because usually a distinction is not made between routine decisions and policy making. In policy making, contrary to routine decision making, framing a problem is equally important as solving it. A case in point is falling growth rate of a company manufacturing children's perambulators. While firm's executives suggested vigorous promotional and advertising campaigns, changes in design, colour and other aspects, a consulting firm found the falling birth rates as the main reason, and suggested diversification. Thus, to perceive the basic cause and mental ability required for that are more important than the tools used.

[24]Ralph Gardiner, quoted by Morris E. Hurley, *op. cit.*, p. 113.

[25]Quoted by Chester Burger, *Survival in the Executive Jungle*, London, Macmillan, 1968, p. 11.

Since the main purpose here is to isolate abilities and skills required for decision making, it is thought fit to abandon the traditional approach and instead resort to psycho-analytical study of the decision process.

It must be understood that decisions are an expression of a mental activity and not result of calculations and analysis done by computers or any other business machines. Geoffrey Vickers[26] calls this mental activity 'judgment'. He has adopted dynamic conceptual model which embraces entire process and highlights mental skills as against physical aids, tools and techniques. In his all-embracing analysis, Vickers observes that a problem has to be framed after taking into account casual relationships of all inter-linked aspects. Similarly, "each solution proposed by executive judgment is appraised, not merely as a solution to the problem which evoked it but also for its impact on other problems which it may make easier or harder of solution". Therefore, the entire system is to be viewed in its dynamic form and solution found by what he calls 'optimising balancing' process.

The ability to optimise and balance the interactive forces of economic, social, cultural, political, geographical, technological and, above all, personal factors depend upon strength of the 'appreciative system'. The 'appreciative system' of an individual is defined as "a set of readinesses to distinguish some aspects of the situation rather than others and to classify and value these in this way rather than that". It is "a net of which warp and weft are reality concepts and value concepts". The reality concepts include the appreciator's perception of the existing state of system as also its past and future form, the latter linked with various hypotheses. The value concepts naturally include those of the colleagues, superiors, customers, suppliers, government officials or society at large.

Vickers asserts that "these readinesses" which form the appreciative system "have to be learnt". He also says "the development of an appreciative system...is the inner history of an individual, an organisation and a society".

It is, of course, implicit that the net of the appreciative system to be widened continuously, the appreciator must have flexible and open mind and have desire to learn constantly from his own and others' experiences and published matter.

With this background, Vickers describes the "skills involved in policy making". These are:

(*i*) *Reality Judgment*

Capacity to comprehend and analyse a complex situation extended in time, to assess the outcome of multiple, causal in-

[26]Geoffrey Vickers, *The Art of Judgment*, London, Methuen, 1968.

teractions, to apply appropriate time scales, to comprehend uncertainties, most of all perhaps to simplify without distorting by excluding the inessential.

(*ii*) *Instrumental Judgment*

The ingenuity which produces apt solutions to the problems set by such surveys of 'reality' calculated to change the pattern of expected relationship by responses perhaps never tried before.

(*iii*) *Value Judgment*

The skill to evaluate or test possible alternatives both against ideal and operative norms or standards... or the capacity for making value judgments...an activity of the mind, which minds similarly endowed can infer from the behaviour and communications of others but which they can interpret in the light of their own experience.

One important aspect needs to be clarified at this stage. "The value judgments of men and societies cannot be proved correct or incorrect." These can only be 'approved' or 'condemned' after the event by exercising another value judgment. But decisions taken by policy makers involve large-scale commitments of financial human and material resources. Therefore, the policy maker must have courage to take the risk that is implicit in every decision. All skills without courage are futile for the decisions would never be put into action.

Conceptual Skill

An attempt has been made in the foregoing paragraphs to explain important attributes which should generally be possessed by chief executives. Katz[27], however, deprecates the quest for finding specific units or qualities of chief executives. He suggests that "effective administration rests on three basic developable skills". This approach, he says, "obviates the need for identifying specific traits". The three basic skills according to him, are: technical, human and conceptual. It is necessary to define these for the sake of ready appreciation.

(*i*) *Technical Skill* "implies an understanding of, and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures or techniques...Technical skill involves specialised knowledge, analytical ability within the speciality and facility in the use of the tools and techniques of the specific discipline."

(*ii*) *Human Skill* "is the executive's ability to work effectively as a

[27]Robert L. Katz, "Skills of an Effective Administrator", *in* Richards and Nielander (eds.), *op. cit.*, pp. 807-823.

group member and to build cooperative effort within the team he leads."

(*iii*) *Conceptual Skill* "involves the ability to see the enterprise as a whole; it includes recognising how the various functions of the organisation depend on one another, and how changes in any one part affect all others; and it extends to visualising the relationship of the individual business to the industry, the community, and the political, social, and economic forces of the nation as a whole."

Further, Katz brings out relative importance of conceptual skill when he says: "at the top level of administration this conceptual skill becomes the most important ability of all...of chief executive may lack technical or human skills and still be effective if he has subordinates who have strong abilities in these directions. But if his conceptual skill is weak, the success of the whole organisation may be jeopardised."

Common Qualities

It might appear queer but, despite the fact that each business of industry is different in many respects from others, the principal qualities and skills of chief executives of most of them are almost common. Colonel Alan Haemer, Controller of the United States Air Force's First Strategic Aerospace Division, rightly said: "Executives have the same qualifications everywhere getting along with people, monitoring them, and managing them. The same principles of management hold true whether it's a controller's section or a paper bag company."[28]

THE CHOICE

The words 'ideologists', 'generalists' and 'specialists', though familiar, are subject to different interpretations. It is, therefore, necessary to define these here before discussing and making the choice of one of these species for posts of chief executives.

Ideologist

Ideologist is defined in the Random House Dictionary as "an expert in ideology" or "a person who advocates a particular ideology".[29] In the context of this article, it is also presumed that the ideologist is an ardent supporter of a particular ideology and his mind is preoccupied with ideological considerations.

[28]Quoted by Chester Burger, *op. cit.*, p. 35.
[29]*Random House Dictionary of the English Language*, College Edition.

Specialist

According to the Chambers's Dictionary, a specialist is "one who devotes himself to a special subject".[30] And the verb 'devote' means "give up (oneself, one's efforts) exclusively to a (person, purpose or pursuit)".

Generalist

Random House Dictionary of the English Language—College Edition—defines a generalist as "a person whose knowledge, aptitudes and skills are applied to a variety of different fields as opposed to a specialist".

These definitions, and especially the one of a specialist, might appear too rigorous to those who are accustomed to their use with loose and flexible meaning. True, it is difficult to find pure specialists, ideologists or generalists; there is bound to be overlapping of two or all the three types in case of an individual. However, no serious discussion and a rational decision is possible unless the basic assumptions are specified and agreed upon, for vagueness acts as oil to the fire of controversy.

WHO HAS MAJORITY OF QUALITIES AND SKILLS

A Deviation to Approach

In the section outlining 'the approach' to the article, it was stated that a choice would be made after verifying which one of the species is likely to possess maximum of qualities and skills necessary to be the chief executive. However, while discussing 'commitment', it was concluded that full commitment to the ideology of a party in power was not a necessary qualification for chief executives. It was also pointed out that 'neutrals' should be acceptable and, other things being equal, 'sympathisers' are to be preferred. Moreover, it is impracticable to place persons as chief executives only on the strength of their expertise in the ideology. Once a quality is eliminated from the 'deciding factors', the specie of 'ideologist', whose strongest attribute is 'commitment to ideology', automatically ceases to be a contestant. Further discussion will, therefore, be restricted to making a choice between 'specialists' and 'generalists'.

Nevertheless, as it is felt that, 'other things being equal', 'sympathisers' are preferable, commitment remains a necessary quality in this limited sense.

Commitment

Democracy presupposes such citizens, who make comparative study

[30] *Chambers's Twentieth Century Dictionary.*

of ideologies of different political parties and support one or the other on the basis of convictions formed. It is a great irony that school and college curricula, except those of economics and political science, do not include detailed study of the principal ideologies. Educated people remaining 'uneducated' in this vital sphere is, therefore, a common feature.

Individual citizen is left to himself to acquire knowledge of the ideologies. Unless one has varied interests and political awareness, he forms opinions on the basis of superfluous information. It is but natural that technologists and scientists being deeply involved in pursuit of one subject or a part of it should neglect the study of the ideologies. The generalists on the contrary are more likely to be interested in the political systems and ideologies. Therefore, they, and not the specialists, are more likely to be committed to a particular ideology.

Knowledge

Minimum comprehension in computer technology, applied mathematics, statistics, economics, psychology, political science, ethics, philosophy, history, symbolic logic and other disciplines was considered to be an essential requirement of chief executives.

Having given up themselves exclusively to pursuit of a special subject or a part of it, specialists would hardly be interested in plethora of disciplines. If, by virtue of their position, they are compelled to study subjects other than their specialities, many of them are likely to be frustrated. Moreover, it is unjust and detrimental to the larger interests to compel a specialist to neglect the field of his choice. If, in the process, they get separated from the mainstream of developments in their fields and abandon or neglect pursuit of their research projects, country and society might be deprived of probable discoveries and inventions of far reaching consequences.

Therefore, it is not only difficult but socially undesirable to waste specialists' talents on acquisition of 'elements' of other disciplines. There is, therefore, more than a friendly eulogy in what Khushwant Singh says about L.K. Jha, erstwhile Governor of the Reserve Bank of India:

> I am convinced that man like Ell Kay (L.K. Jha) should not be wasted on administration . . . His real place is in the groves of academy. He is like Galbraith; he should be guru rather than a Governor or ambassador.[31]

[31]Khushwant Singh, "The Editor's Page", *The Illustrated Weekly of India*, February 1, 1970, p. 31.

Khushwant Singh perhaps drew this conclusion from Galbraith's own following statement:

> When President Kennedy asked me to go to India as his ambassador in 1961...I worried, lest the world were exchanging an irreplaceable author for a more easily purchaseable diplomat.[32]

The generalist, on the other hand, is by the very nature a bee, hopping from one subject to another collecting honey of essential knowledge. It will be impossible for him to 'give up himself exclusively' to a single subject. He would not take a challenge to unravel a mystery pertaining to a minor topic of a subject and devote himself to solving that. He would willingly face the difficulties in acquiring at least a 'minimum comprehension' in a hitherto untouched subject.

Leadership

Foresight and skill in innovation, besides ability to motivate and direct people, are the hallmarks of leadership. Unlike political leadership, management leaders' success depends more on the first two factors. An unfamiliar meaning of leader is to be to the foremost. Communications are revolutionized and information spreads fast. A new technique, product, procedure, or anything becomes commonplace very soon. Only a person who can exhibit continuous brain power to innovate can be the first or a leader and establish leadership of his organisation.

The importance of this vital skill has not been recognised in India due to lack of competition. But with the increasing emphasis on exports and fast-growing competition and cost and quality awareness in the home market, this skill would be indispensable for chief executives. Nothing is more inimical to a country's exports than obsolescence, and India cannot be an exception.

Chief executives must possess foresight and skill in innovation in each and every sphere of their enterprise. Continuous improvement in marketing, production, financial management, human relations and public responsibility, etc., is the only guarantee of overall success of the enterprise.

It is an established fact that man cannot import rare insights into his work and exhibit innovating skill in any activity without a certain degree of knowledge and understanding of basic principles involved. A child is considered as a 'physical entity' at the time of birth and only after he has acquired knowledge and understanding of the various aspects of life that he can take decisions or surprise parents by uttering or doing a thing that is uncommon for his age.

[32]J.K. Galbraith, *The New Industrial State*, The New American Library, 1967, p. viii.

A specialist, with profound knowledge and keen understanding in his chosen field, can excell in innovations in that particular sphere. But he would not be able to appreciate readily a proposal for innovation in some other subjects. This is obvious but might be difficult to accept. If proofs are required, history is full of them. Majority of discoveries and innovations in physical sciences have been exploited to wider social benefit by men other than their fathers. There are very few examples of persons having undertaken production of patented articles or machines on their own. Not that they have no desire to do that but the host of attendant problems and evils dissuade most of them.

Generalist, whose "knowledge, aptitudes and skills are applied to a variety of different fields", can display skill in innovation in all the fields. It can be argued that generalists, who happen to occupy high positions and wield authority and power, merely borrow and at times steal ideas and proposals of others and present as their own. In other words, they lack originality.

It might shock readers to know that Barnard, 'a leading authority on management', considers the above mentioned 'drawbacks' as 'virtues' to be sought in 'a good leader in industry'. He writes:

> The good leader in industry may sometimes give the impression that he is 'a rather stupid fellow, an arbitrary functionary, a mere channel of communication, and a filcher of ideas'. In a measure this is correct. He has to be stupid enough to listen a great deal, he certainly must arbitrate to maintain order, and he has to be at times a mere centre of communication. If he used only his own ideas, he would be somewhat like a one-man orchestra rather than a good conductor, who is a very high type of leader.[33]

The difficulty, says Barnard, is to find people who have these qualities, who are 'properly' stupid, effective channels of communication and capable of stealing the right ideas. It is anybody's guess if any specialist would ever endeavour to cultivate these strange virtues.

As far as the second and more common leadership aspect of 'motivating and directing people' is concerned, the following quotation from the Taoist scripture of China renders any detailed discussion superfluous.

> The best soldier is not soldierly;
> The best fighter is not ferocious;
> The best conqueror does not take part in war;
> The best employer of men keeps himself below them;

[33]C.I. Barnard, "The Nature of Leadership", quoted by J A.C. Brown, *The Social Psychology of Industry*, Penguin, 1964, p. 225.

This is called the virtue of not contending;
This is called the ability of using men."[34]

The judgment was delivered against the specialists five or six hundred years before Christ, which has maintained its validity till today.

Ability to Make Decisions

Decision is an expression of mental activity which Vickers calls 'judgment'. Whether a person's judgment is sound or otherwise is determined by the breadth and depth of his 'appreciative system'. The appreciative system must be wider and deeper when decisions on problems in many different fields are to be taken by the same person. A chief executive has to take important decisions on current and anticipated problems pertaining to variety of different fields, like marketing, procurement, production, finance, government regulations, labour relations, etc. His 'appreciative system' must, therefore, have widest range of dimensions possible!

Each problem has numerous solutions and every solution is fraught with varying degrees of risk. Often a delightfully ideal solution to a problem has to be abandoned due to the difficulties it creates in other fields. Therefore, while taking a decision, a chief executive has to consider 'the business whole and true' and then use 'optimising-balancing' technique.

McCaffrey says "the specialist usually does not see overall effects of the business and so he tends to judge good and evil, right and wrong, by the sole standard of his only speciality."[35] Pamp also observes: "The exclusively technical or scientific man is on a tennis court as compared to the generalist who has the added dimensions more like those of a squash court available to him. The latter can get the ball of decision bouncing off more walls."[36]

Other skills required in decision making, *viz.*, innovation, prediction (foresight) and valuation were considered in the section on 'leadership'. In those cases, as in the present one, generalists win over the specialists.

This conclusion can be readily appreciated if the working of judiciary is carefully studied. The High Court and Supreme Court judges deliver judgments on matters of far more importance and consequences than chief executive of any company. Study of laws is nothing more than background information to these judges. Before they can apply the provisions of law, they have to sift innumerable true and

[34]Quoted by J.A.C. Brown, *op. cit.*, p. 225.

[35]John L. McCaffrey quoted by Frederic E. Pamp (Jr.), "Liberal Arts as Training for Business", *in* Richards and Nielander (eds.), *op. cit.*, p. 896.

[36]*Ibid.*, p. 901.

alleged facts from many fields and subjects. A judge of High Court or Supreme Court, during his tenure, presides over cases covering the entire sphere of human activity. Also, in each case, both sides put forth arguments that are full of complexities covering various fields. A murder case alone may involve psychological, medical, ballastical, social, technological, scientific and, above all, fictitious factors. It is possible for them to pick up the relevant facts and evaluate them as accurately as possible not because they are specialists in law but by virtue of highly developed mental skills required for judgment. The judges are perhaps the leaders of the species called generalists.

It is amazing that those who consider a generalist chief executive incapable of taking sound decision in technical matters, are perfectly satisfied with the appointment of a High Court or Supreme Court judge to enquire into an aircraft accident or causes of breaching of dams, though he is a highly non-technical person. Public and, more often than not, experts, accept his judgment as just and sound. There is, therefore, no doubt that only generalists can take a sound decision in the matters involving a number of fields.

Generalists Win

It is then obvious that generalists possess maximum qualities and skills required to be a chief executive. This problem was studied empirically by *Dun's Review of Modern Industry* which surveyed the 250 largest corporations of United States of America and concluded: "Your chances for promotion are best if your speciality is general management . . . This was the largest single source of Company Presidents".[37] And, finally, if specialists or their protagonists feel elated because Dun's Review recommended 'specialists' in general management for higher promotion, the other side should delightfully concede the victory to them.

THE EVIDENCE

It has been pointed out in the preceding paragraph that in USA, majority of chief executives were generalists. The outstanding examples can be cited in support of this conclusion.

In an article titled "Charles Wohlstetter's Many Careers", published in the *Business Week*, the editors wrote: "He has acquired as many careers as some men have neck-ties."[38] Can he do justice to so many careers? The *Business Week* editors would confidently reply in affirmative. They further observed: "To all his various endeavours Wohlstetter brings a characteristic desire for expertness . . . He is amazingly

[37]Chester Burger, *op. cit.*, p. 229.

[38]"Charles Wohlstetter's Many Careers", *Business Week*, August 30, 1969.

knowledgeable . . . He is proficient in so many areas, and not slipshod in any of them."

Clarence Randall is described by Sheehan as "Statesman from Steel"[39] because, before Eisenhower appointed him as Chairman of the all important Commission on Foreign Economic Policy, he was Chairman of the Board of Inland Steel of Chicago.

Randall's entry into the Inland Steel, Chicago, is perhaps the most dramatic appointment of a senior executive. As undergraduate, he had studied History and English and graduated from Harvard Law School. He had established himself as a competent attorney at law and had no desire to change career. But the events took a strange turn and:

> Out of the blue one day in 1925, Randall received a letter from D.P. Thompson inviting him to come to Chicago to discuss a job that was open at Inland Steel. Randall knew next to nothing of Thompson or his Company. He made the call . . . P.D. (Block, the President) asked Randall only one question . . . 'Do you think you can run an iron mine?' To which Randall answered, 'Yes, Sir'. P.D. explained that they were not looking for a lawyer as such (he would, in fact have to close his law books) but an across-the-board assistant to Thompson who was in turn assistant to the President.

With one question and a two word answer "at thirty-four, Randall, who surely had the equipment to become one of the country's great trial lawyers, became an industrialist instead". He rose to the chairman's position in Inland Steel and later on a successful statesman. This is perhaps the soundest testimony to generalists' ability to manage engineering enterprises.

Unfortunately, outside the USA, attention is not paid to writing biographies of successful executives. But any research on the lines of Dun's Review would yield the same results. Marsh, Director-General of the British Institute of Management, said:

> In effect, a functional manager was a specialist and the higher he aimed at in his career the more he would need to drop his specialist outlook.[40]

This, as observed earlier, is difficult and also detrimental to larger in-

[39]Robert Sheehan, "Clarence Randall: Statesman from Steel", *The Art of Success*, Bombay, The Times of India Press, pp. 21-33.

[40]John Marsh's address at "Seminar on Management Development Policies", organised by Delhi Management Association, *The Economic Times*, October 24, 1969.

terests. Instead, it is better to have 'specialists' in general management.

Examples of Soviet industry are often quoted by protagonists of 'specialists'. According to Richman, "Soviet industrial enterprises are managed primarily by engineers. It is estimated that 90 per cent or more of all enterprise directors are engineers by training".[41] This is, however, deceptive because the functions of director of Soviet enterprises are not as multifarious as those of chief executives in India or other non-communist countries. The Soviet enterprise director is not burdened with uncertainties of sales, financial resources nor would he be bothered about labour problems of our types. "Recessions and depressions would hold little fear" for the Soviet manager. Richman clearly states that the Soviet enterprise director "would be chiefly concerned with meeting production quotas established in advance". This is the job equivalent to our production managers and, even in India, majority of companies appoint engineers in this capacity.

THE LIMITATIONS AND REMEDIES

Though analytical and empirical research brings us to the conclusion that generalists are more suitable to be chief executives, the choice is not without limitations. It will be vain to build an image of 'ideal chief executive' because we cannot 'fabricate' men identical to a 'model'. Life is full of compromises and it is futile to pursue the 'ideal' in the sphere of management. It is, however, possible to minimise the ill-effects of the compromise by remedial measures, the major three among these measures are discussed below:

Frustration Amongst Specialists due to Loss of Status

Somasundaram quoted Smt. Indira Gandhi's views expressed in her convocation speech at Roorkee University in support of his call for better deal for technologists. Smt. Gandhi had said:

> It is odd that the greatest doctors and engineers in the country, who would be rated as the leaders of the profession and who save lives or add permanent assets to the nation, can rarely hope to receive the pay or status of Secretaries of Ministries. The brightest of our youngmen and women choose engineering and medicine. If they happen to go into Government, they are very soon overtaken by the General Administrator.[42]

This is a very precise diagnosis of the frustration amongst doctors,

[41] Barry M. Richman, *op. cit.*, p. 58.

[42] Indira Gandhi's convocation address to Roorkee University, *Engineering Times*, August 15, 1969.

scientists and technologists. But the remedy of planting these people as the heads of public sector undertakings and departments is a quack-remedy.

Firstly, the status of a specialist is determined not by power or authority he wields but by the influence his professional eminence exercises and the respect it commands. Knowledge is a great power and if it is really there even most arrogant would not help bowing before the possessor.

Secondly, the disparity in the pay of heads of undertakings and departments and other executives can be remedied by rationalising pay structure. It is a sign of perversity to plant a favoured group at highly paid jobs and push the present occupants down to lower pay scales. After all, as Thayer observes, there are classas in a classless society of Russia. He also says: "Sharing the privileged status of the party leaders and government ministers—though not their power—are a handful of senior scientists, writers, artists and top generals, many of whom are highly paid".[43] There is nothing that prevents the government from changing the entire pay structure instead of changing designations so that a group earns higher salaries.

Generalists' Lack of Expertise Delays Decisions and Causes Losses

Yagnik, a Member of Parliament, commenting on Somasundaram's letter, said:

> It is a matter of deep regret to us that many of our big public undertakings have been incurring losses even after the first few years of their infancy were over. I have no doubt that it is due to the appointment of IAS officers who knew hardly anything about engineering technology and who have been appointed to manage huge undertakings. And competent engineers and such expert staff are compelled to serve under these high and mighty ignorant bosses.[44]

In the first place, the IAS Officers are not solely responsible for losses of public undertakings; there are many more reasons for that. Yagnik and those who share his views would be perfectly satisfied if a High Court judge were appointed to enquire into an air-crash with the help of expert assessors. There they value the mental ability called judgment more than knowledge of aeronautical engineering.

However, it cannot be denied that lack of expertise on the part of chief executive might at times be a hindrance to progress of an under-

[43]Charles W. Thayer, "Russia", *New York Times*, 1961, p. 102.

[44]Indulal Yagnik, letter published in *Engineering Times*, October 1, 1969.

taking. But it is presumptuous to say that appointment of an engineering wizard would solve the problem for it needs expert knowledge of marketing, finance, human relations and many other disciplines to run an engineering or any other type of enterprise. The right remedy would be to shift power from individual to the executive committees consisting of experts from various fields. A committee is an effective method of bringing the collective knowledge and judgment of a number of people to bear on a problem. 'Group thinking' is an integral part of American business management, though chief executive has veto power. All would readily agree with Galbraith when he says: "Decision in the modern business enterprise is the product not of individuals but of groups."[45]

A long-term remedy to this problem is to overhaul the education system. As Timken says, even the American "advanced education system tends to develop two completely different kinds of individuals. The technical curricula have over concentrated within their disciplines, and the non-technical curricula have stayed as far away as possible from anything even bordering on the technical."[46]

If the humanities and liberal arts students so desire, they can certainly acquire 'minimum comprehension' of technical subjects and *vice versa*; many individuals have acquired expert knowledge of both the worlds.

Deviation of Operation of Enterprises from Ideological Objectives cannot be Located and Rectified Promptly

Since full commitment to the ideology of the party in power is not considered a necessary qualification and ideological 'neutrals' have been recommended for appointments as chief executives, it is likely that operation of enterprises may not be fully in conformity with the ideological and social objectives. The central agencies and Ministers might find it difficult to correct the 'deviant course' of an enterprise due to time lag in noticing the 'shift'.

It should be remembered that such a disparity between policies and practice is inevitable to a certain extent notwithstanding the degree of commitment of chief executives to an ideology. Even in the Soviet Union, where enterprise directors are 'almost always' members of the party, "every industrial enterprise has a communist party committee" which is entrusted with the tasks of "motivation and education of personnel, human relations and various social issues."[47]

There is no reason why such committees of MPs, MLAs and other

[45]J.K. Galbraith, *op. cit.*, p. 76.

[46]W.R. Timken (Jr.), "Can Non-Technical Executives Successfully Direct Engineers", *The SAE Journal*, November 1969, p. 30.

[47]Barry M. Richman, *op. cit.*, p. 220.

prominent party members cannot be formed to review operations of enterprises periodically. It is, however, essential that these committees are strictly in advisory capacity and are not allowed to interfere with the routine business, otherwise the drawbacks of the Soviet system of 'dual authority' would hamper the operations due to constant tussle. Thayer says:

> On every level of Government from the Council of Ministers to the lowest factory board, the party representative upholds first and foremost the political point of view for which he has been trained. His counterpart on the other hand—the minister, the manager, the engineer or the scientist—is primarily concerned with technical operation...there always remains the possibility of friction between them.[48]

CONCLUSION

And so we see that steering an enterprise clear of technical, natural, social, political, economical, psychological and above all 'personal' obstacles to the goal, is a complex process. It demands chief executive with versatility, resourcefulness and agility. Naturally both, analytical and empirical approaches lead us to the same conclusion that only 'generalist' can meet the tests of 'general management'. Undoubtedly, the choice is not 'perfect' but definitely 'the best' under the prevailing circumstances. The evils of imperfection in this case are not beyond remedies.

Generalists are a vital and undying species and even in this era of 'specialisation', 'jack-of-all-trades' has an important place. If he has secured it by 'specialising' in 'general management' that is a testimony to his executive skill. He knows only too well that "If you can't win them, join them", this is called the ability of using men—the secret of all successful souls. □

[48]Charles W. Thayer, *op. cit.*, p. 52.

Workers' Participation in Management of Public Sector Undertaking*

Dipankar Sarkar

WORKERS' PARTICIPATION in management of enterprises, both in the public and private sectors, has been a controversial subject which has been under discussion and experimentation for quite some time. In this article the subject is proposed to be discussed in the context of the public sector undertakings of the Government of India, especially those which are industrial production units.

Results of the operations of an undertaking are dependent on the various inputs which go into the operations. The most complicated among the inputs is the manpower, because men are not an inert substance, like machinery, materials or money, which can be used, abused or misused in any manner. In a country like ours, which is wedded to democratic socialism, the workers have become conscious of their well-being as well as their importance. In the present day conditions in this country, the establishment in any undertaking, and a government undertaking in particular, can no longer be changed by the management at will. The workers become a permanent acquisition of a government undertaking and, therefore, their existence and aspirations can hardly be overlooked by the management. If some excess material is procured or excess capacity is created on account of faulty planning, there is scope for correction by way of disposal of surplus materials and capital equipment. Such a freedom does not exist in the area of human resources in the government undertakings and, therefore, the all available manpower will have to be put to the best use in order to secure the most optimum results.

The objective of workers' participation in the management is to derive maximum benefit from the manpower input, by ensuring better cooperation from the workers and more harmonious relations between

*From *Indian Journal of Public Administration*, Vol. XIX, 1973, No. 1, pp. 40-53.

the management and the workers. In a developing economy, capital and material resources are scarce and the demand and necessity of the end-products to be produced by utilisation of these resources is very high. The public sector undertakings are expected to reach commanding heights in the country's economy and for this purpose, large amount of taxpayers' money, as well as the country's foreign exchange resources, have been invested in these undertakings. The unsatisfied demand accentuates the inflation spiral and the vicious circle of cost of living chasing the wage level and the latter, in turn, chasing the former, continues. This throws the planning process out of gear and brings in its wake all round misery by arresting the country's progress towards development. In this context, importance of finding out the style of management of public sector undertakings, which will secure the best efforts from their human resources and thereby the best utilisation of the nation's capital and material resources allocated to these undertakings, hardly needs any emphasis.

FACETS OF MANAGEMENT

When we talk of management from the point of view of workers' participation therein, it is essential to keep the entire function of management in view. The management function is not confined to decision-making only, as is commonly assumed, but its horizon is much wider than making selection from alternative choices. The basic ingredients of management can be divided into the following four broad categories:

(*i*) *Planning*, *i.e.*, decision-making with reference to the past experience, the present situation and the anticipation regarding the future. Planning is, therefore, an embodiment of the past, a product of the present, and a prophet of the future. The alternatives available, the cost of such alternatives in terms of inputs and the results expected from each alternative, are analysed and the best alternative is chosen for achieving the maximum output at the minimum cost.

(*ii*) *Organising*, *i.e.*, providing the requisites for execution of the plan by making available the right kind of men, materials, machinery, money and organisation at the right time and at the right place. This calls for action on the part of management for in advance of the stage of actual operations.

(*iii*) *Controlling*, *i.e.*, ensuring the actual utilisation of the resources according to the plan when the plan is under execution, so that any deviation or shortfall from the plan can be set right by taking corrective action on a concurrent basis. This constitutes the day-to-day function of the management.

(*iv*) *Motivating, i.e.*, providing the necessary leadership to the human element involved in production so that the employees are inspired to achieve higher results. Such motivation should not be in abstract form, drawing upon the good qualities of human nature, like patriotism bringing forth the highest sacrifice in a battlefield. It should be institutionalised by appropriate management action which rewards the efforts through benefits, monetary or otherwise, which should not only compensate in a satisfying manner the efforts already put in, but also promise higher benefits for still better results.

The participation of the workers in management, in order to be successful, will have to cover the entire gamut of management as described above, instead of confining its scope to anyone or the other of the individual facets. The extent to which workers can take part in various aspects of management has not been studied in depth in our country and various opinions are prevalent in regard to the capability of workers to participate in planning, organising and controlling operations. Even when it is conceded that workers can be effective in all the above mentioned three areas, the last area, *viz.*, in the matter of motivation, the workers' possible contribution has been generally overlooked. Rather, it has very often been thought that the participation of workers in planning, organising and controlling will automatically lead to the necessary motivation. The fact, however, is different, because motivation itself is gradually becoming more and more important function of management. Various sophisticated techinques have been developed in respect of planning, organising and controlling operations, while the field of motivation is still to be covered by intensive research into the various aspects of human behaviour. In many government undertakings, it is the motivation which has been seriously lacking and the management has not been found equal to the task of carrying the workers with it. As a result, in spite of all the huge investments, the desired results are not coming forth.

STEPS TAKEN SO FAR

The first step towards involving the workers in the management process started when a study group was constituted in 1956 to examine the systems of workers' participation in management in Europe. This study group recommended the setting up of Joint Management Council wherein the workers will get an opportunity to participate in management. This subject was thereafter discussed in several conferences and seminars in 1957 and 1958 and then the constitution, functions and responsibilities of the Joint Management Council were decided upon. Such Joint Management Councils were set up in a few undertakings, both in private as well

as public sectors. A study of the working of these councils has revealed that the objective of joint management has been hardly achieved.

The failure of the Joint Management Council has been due to a lack of understanding of the basic intentions both on the part of the management as well as the workers. The management side jealously guarded their right of management and wanted to keep the workers only informed through the council. They did not see that it was not enough to discuss with or consult the workers before taking decisions, since that did not really involve the workers in the management process. The workers, on their part, mistook the Joint Management Council as another platform for collective bargaining. They did not realise that collective bargaining was the job of the Trade Union whereas in the Joint Management Council they were expected to take part in the management process, which was not confined to personnel management only. This lack of understanding of the concept of joint management on the part of both the management and the workers has mainly contributed towards the failure of the Joint Management Council.

The next step, which has been taken by the government in order to associate the labour with the management of government undertakings, is through nomination of a prominent trade union leader as member of the Board of Directors of the Undertakings. It is doubtful whether this step has contributed significantly towards securing the involvement of workers in the affairs of the undertaking. The Labour Director, with his pre-occupation with the trade union movement in the country, naturally looks at problems against that wider context and thereby becomes somewhat removed from the realities of situation in a particular undertaking. The Labour Director, no doubt, appreciates the managerial problems in their true perspective but his basic loyalty to the trade union movement very often inhibits his opinion and action. Also, it is not always possible for him to function as a channel of communication between the top management and the workers or to act as an arbitrator between the two parties since he has to function under severe constraints. Such constraints become more acute when there is a difference in a trade union's affiliations between the Labour Director and the workers' union in a particular undertaking.

The next step which has been contemplated by the government is nomination of a worker of an undertaking as a member of the Board of Directors to provide representation of the workers at the highest level of management. The scheme for appointment of worker-directors in the public sector undertakings is briefly described below.

There should be a duly recognised workers' union in the undertaking and the office-bearers of the union should be predominantly workers of the undertaking. The relation between the management and the recognised union should have been cordial, that is there should be a

tradition of mutual settlement of disputes. The recognised union should sponsor names from amongst the workers of the undertaking for appointment as director. In the case of multi-unit undertakings, the workers' representative in the central board of management may be selected by rotation from each unit, provided each such unit has a recognised union.

Election of workers' representative for nomination as director has not been favoured and the selection of worker-director is sought to be made from a panel of three names suggested by a recognised union. The workers to be included in the panel should have attained the age of 25 years with a minimum service of 5 years in the undertaking. No disciplinary action should be pending against the workers at the time of their appointment as director and they should not be persons who would attain the age of superannuation during their tenure of appointment as director. Although no minimum educational qualification has been prescribed for workers to be nominated as director, the workers are expected to have adequate knowledge and experience of working of the industry and of the employer-employee relationship.

The worker-director should continue to be a worker on the shop-floor during his tenure as director and be subject to the normal discipline applicable to any other worker. The worker-director will, however, be entitled, in addition to his remuneration as a worker, to the fees and allowances admissible to other part-time non-official directors of the undertaking.

The appointment of a worker-director should be for a period of two years which can be extended for a further period of two years provided the worker continues in employment and the union which has nominated him continues to be recognised. The worker-director will cease to hold office before the expiry of the full term, if he ceases to be a worker or if the union nominating him ceases to be recognised. If recognition is withdrawn from one union and is accorded to another union, the newly recognised union will be called upon to furnish a panel of workers for selection of the worker-director.

This scheme of worker-directors has been proposed to be tried initially in one or two public sector undertakings, other than defence and strategic undertakings, where the undertaking does not have multiple units and multiple trade unions.

The efficacy of the scheme of nomination of one or two worker-directors in the Board of Directors is still to be assessed. Although it is a welcome step towards worker's participation in management, it is apprehended that the scheme is not likely to achieve the desired results. This is because the worker-directors will constitute a small minority in the Board of Directors and cannot, therefore, be expected to carry the entire Board along with them in all cases. It is possible that the worker-

directors will only try to champion the cause of the workers in the Board, leaving the other areas of management to the rest of the Board. If such a partisan attitude is displayed, it is inevitable that their views will be mostly overruled by the majority decision in the Board. This will relegate the function of the worker-directors to a very unenviable situation where they can at the most record dissenting notes in the proceedings of the Board of Directors. Outside the Board, they will have to face the workers who will not easily understand the intricacies of the Board's problems and responsibilities and it will be a job for them to explain their inability in the matter of realisation of the workers' demands in spite of remaining in the Board of Directors. This is bound to lead to a sense of frustration not only amongst the worker-directors but also the workers in general and create a situation where the workers and the union may not be willing to participate in the process of management through nomination of one or two worker-directors in the Board. It will be soon realised that such functioning of worker-directors does not deliver the goods, as expected by the workers, but they become involved in the management and thereby become responsible, at least in a way, for the results of the operations. It is, therefore, doubtful if the nomination of worker-directors in the Board of Directors will lead to any better understanding or more harmonious relationship between the management and the workers of public sector undertakings. Even if it leads to some improvement in the sphere of industrial relations by establishing one more channel of communication between the management and the workers, it is not likely to make a significant contribution towards better motivation of the workers.

A BRITISH EXPERIMENT

It may be worthwhile to mention here the experiment made in U.K. by inclusion of non-managerial employees as members in the board of directors. The 'shop-floor to Boardroom' experiment has been made in the British Steel Corporation which is a nationalised undertaking. It was decided to give representation to the employees up to and including the level of assistant department head in the Board of Directors of this Corporation. Thus all employees, except the uppermost one per cent of the total strength of about 270,000 employees of the Corporation, were to be represented. Out of 120 nominations from the trade unions, the Trades Union Congress selected about 30. Thereafter, the Company and the Trades Union Congress made a final selection of 12 directors on the four group boards of the Company. The group boards were later reorganised into six product divisions.

The 12 men nominated to the Board of Directors were drawn from various categories, like shop workers, clerical grades, supervisors, technicians, etc. They were considered representatives of the major trade

unions in the industry. One thing they all had in common was considerable experience as trade union officers. Quite a few of them had important roles in local community activities.

The 12 persons were appointed for a three-year term. They continued in their regular jobs but enjoyed the same status and conditions as other directors. They were, however, required to resign from trade union offices held by them. To start with, these directors served on group boards, other than those governing the groups in which they worked, but this policy was changed later on and the worker-directors were allowed to serve on any of the group boards.

The worker-directors were given an intensive 5-week training on the problems and policies of the Company as a whole, as well as general economic problems and they were also made familiar with the usual management techniques and procedures. The worker-directors were asked to assess their roles after about 9 months in a one-week seminar and it was decided that job description would be laid down for the worker-directors, setting forth their specific reponsibilities as directors.

It has been felt that the worker-directors have made a useful contribution in management and have been able to highlight the overall point of view of the labour force.

ATTITUDES OF WORKERS

Participation of workers in management of public undertakings, in whatever form it is practised, will not lead to any positive result unless there is a change in some of the prevalent basic conceptions and attitudes of the workers of such undertakings.

The first misconception relates to the exact character and role of the public sector undertakings. The worker does not distinguish between a government undertaking and a regular government department. The input-output relationship in the regular government departments is not very apparent to the minds of the general public, nor the objectives of the different arms of the government are clearly understood by the public. This nebulous idea about the functions of the government is extended to the government undertakings since the undertakings belong to the government. That a government undertaking has got a role distinct from the functions of the government is totally overlooked and the activities of the public sector undertakings are thought to be like those of a regular government department. Since the output of the government as an administrative or welfare agency cannot be comprehended in its entirety by the worker, he assumes that the government undertakings also are not required to produce any quantified results.

The next misconception is regarding the role of the government as the owner and employer of a government undertaking. It is not realised that the government, as the owner of a public undertaking, has

a very specific and limited objective and responsibilities in the matter of running a particular undertaking. It is thus confined to provision of goods and services a particular field, on commercial principles. As a result, employees of public sector undertakings confuse between the government's role as the owner of the undertaking and the government's role of governing the country. This thinking amongst the workers of the government undertakings leads them to identify themselves with regular government servants and look for the various safeguards and benefits associated with service in government departments. It is, however, forgotten that the regular government servants are also governed by the various rules and codes imposing on them various obligations and restrictions.

Another aspect is that the government, being the owner of all the public undertakings, is taken as automatically responsible for ensuring parity in the matter of wage and benefits between all the undertakings, especially those located in a particular region. What is overlooked in this connection is the fact that each government undertaking, engaged in a particular activity, has its own distinct capacity to generate surpluses, both in regard to the quantum and the time cycle. The economics of each industry is different and a public sector undertaking in any industry is subject to the laws of this economics. In fact, a Steel Plant in the public sector has got more things in common with a steel plant in private sector rather than with a chemical industry in public sector. Each government undertaking has, therefore, its own distinct capacity to provide wage and other benefits to its workers and it is not possible to maintain absolute parity between all the government undertakings in this matter. But the position unfortunately is that the best of everything is expected by the workers in public undertakings. For example the workers in a public sector steel plant will no doubt expect the remunerations and benefits as per recommendations of the Wage Board for the steel industry but will not, at the same time, refrain from demanding parity with another government undertaking engaged in a different branch of industry, if some things are more favourable there. They may also agitate for parity with regular government employees if the Pay Commission or government happen to give to the government servants benefits at a higher level in some area.

Many of the public sector undertakings have been set up with a view to providing the infrastructure for industrial growth and have been located in particular areas for balanced development of the different regions of the country. It is but natural that the government will be guided by such extra-commercial considerations in its decision regarding the public sector undertakings. The government, in its principle of functioning as an ideal employer, provides many social benefits to the employees of the government undertakings. But the exact character of

these measures is, more often than not, misunderstood by the workers of government undertakings. Just as citizens of the country expect the services of the government as a matter of course and become indignant if such services are non-existent or inadequate, the workers of the public undertakings also expect the benefits from the employer as a matter of course and they come to believe that they are only at the receiving end of the benefits with no obligation of giving any return to the employers. This thinking has led to various demands in matters of housing, education, medical benefit, etc., being pitched at a very high level.

A job in a government undertaking is often viewed as a 'womb-to-tomb' insurance for the worker and his family. Workers of government undertakings cannot and should not claim higher benefits from the government, as a government and not as the owner of an undertaking, in comparison to the citizens at large in a country. As an illustration, it can be mentioned that if primary and middle school facilities are provided in the township of a government undertaking, the government acts there as a benevolent employer and the workers cannot expect the government to cater for higher education also, because it is the obligation of the state government to provide such facilities to the entire community including the workers of the public undertakings. Incidentally, there is often an attitude of apathy or indifference on the part of the State Governments arising out of the thinking that the government undertakings, being properties of the Central Government, do not cast any obligation on the State Government regarding civic and social amenities.

Another misconception which is prevalent among the workers is that the government should be concerned with the welfare of the employees of the undertakings and not the efficiency of the enterprise. For example, optimum man-power for maximisation of production and profits is not recognised as a necessity in the case of a public sector undertaking and it is thought that such undertakings should provide more and more employment opportunities to the community without any regard to the economics of operarions. If, as a result, the undertaking goes into the red, the deficit should be made good from the exchequer and the undertaking should continue to operate even if it is not economically viable. In this respect, the private sector undertakings are in a slightly better position as their workers have the awareness that economic health of the undertaking should not be so disturbed that the undertaking cannot survive. But there is no such feeling amongst the workers of the government undertakings who assume perpetuity of the government undertakings just like the government itself.

TRADE UNIONS IN PUBLIC SECTOR UNDERTAKINGS

It is also necessary to look into the trade union movement in the

public sector underkings. As is known, the trade union mevement, in the country as a whole, is yet to come to total maturity but the trade union movement in government undertakings has developed certain peculiar features.

The trade union leadership in public sector suffers from most of the misunderstandings and wrong impressions which have been discussed above and these are reflected in the various demands made by them. As already mentioned, the demands for wages and benefits are very often based on the highest available in government, public sector and private sector. Similarly, the benefits in kind are demanded on the basis of government's role as a welfare State rather than as owner of a commercial undertaking. There are instances where a trade union has agitated for implementation of the Wage Board recommendations and later also asked for benefits awarded by the Pay Commission, wherever these were more as compared to that of the Wage Board. Demands have also been made without any reference to the economics of the operations and the normal commercial principles of running an industry.

Unlike in private sector, the trade unions do not have to face the problem of workers being affected by job insecurity or by discontinuance of the Establishment itself. There is an implicit conviction that the government is obliged to run the establishment whatever be the cost and the output. This has made the trade union leadership comparatively irresponsible in the public sector. Cases are not wanting where a government undertaking has come to the verge of disaster on account of unreasonable and uncompromising attitude of the trade unions and their leaders.

The trade unions are under the strong influence and control of the political parties. The political turmoil, therefore, has its inevitable impact on the trade unions and their activities. The Central Government undertakings have been treated in many places as local symbol of authority of the Central Government and agitations have been launched by trade unions on regional or political issues directed against the Central Government, although the government undertakings, in their own operations, do not have even the remotest connection with such issues. There have been cases where demonstrations have been held by trade unions against top management of a government undertaking to lodge the protest of some political parties against Central Government actions in political plane, such as deployment of Central Reserve Police in a particular area. Such actions disrupt the working of the public undertakings with the attendent loss of production and revenue, while the cause for which the agitations are launched is hardly served.

The trade union leadership in the public undertakings harps on the same concept of owner *versus* worker, as in the case of private sector enterprises. The leaders make the workers think that the management is

capitalist and its sole aim is to exploit workers for its own personal gain. The very measures taken by the government as an ideal employer are used as intruments to whip up resentment amongst the workers for the government's inability to give the maximum possible benefit. The benefits demanded are entirely out of consonance with the general pattern of social benefits sought to be given by the government to the people at large. The trade union leadership does not contribute in any way to, and, in fact, tries to hinder, the development of awareness among the workers in the government undertakings that these undertakings are the property of the nation and while everybody in the undertaking is an employee, everybody is also a part of the ultimate ownership of the undertaking.

PRESENT SITUATION

The government undertakings have been facing serious problems in matters of industrial relations and have to work under several constraints, many of which are not applicable in the case of private sector enterprises. While the government has been striving to become an ideal employer in the case of public sector undertakings, there is no corresponding response from the side of the workers. It is a far cry to think of the workers in the public undertakings as ideal employees, not only conscious of rights but also alive to their responsibilities. In fact, the responsibilities are much more in the case of those who are working in the Public Undertakings, as these are meant for producing goods and services to meet vital needs of the economy for planned development of the country.

The situation, as it prevails today, presents a rather dismal picture. The workers in the government undertakings are disgruntled and the management is frustrated. There is hardly any sense of belonging to the organisation among the workers. Huge national investments continue to remain sub-productive. It is, therefore, essential that the motivation of the employees in public sector undertakings should be given paramount importance. If such motivation is to be generated through the workers' participation in the management, ways and means will have to be found for reorienting the basic attitudes of the workers and then involving them in the management process not in a piecemeal or isolated way, but in a total and complete manner. The steps so far taken have touched only the periphery of the problem and do not appear to have the potential to meet the demands of the situation. The workers will have to imbibe the basic philosophy of the public sector undertakings and the government's rights and obligations *vis-a-vis* their own and this will happen only if they are brought into the management in a big way.

A SUGGESTED EXPERIMENT

A method by which the objective can be achieved is by placing management of a public undertaking in its entirety in the hands of workers. This can be done if the government nominates all the members or at least a majority of the members of the board of directors of the company from amongst the workers. If this is done, the workers will have a real hand in conducting the affairs of the undertaking and will thereby participate in the management in all its aspects, *i.e.*, planning, organising, controlling and motivating.

The principles already enunciated for nomination of workers in the board of directors of public sector undertakings can be followed in selection of all the directors. A system of initiation of the worker-directors into the director's role for management of the company, so that he knows about the problems to be faced and the results to be achieved, should be arranged. Thereafter, periodical evaluation, as has been done in the British experiment, should be instituted.

Advantages of the Proposal

The advantages of the system suggested above are obvious. The workers, being in complete control of the management, can no longer remain in the camp of opposition to the management set-up. This is bound to lead to improvement in industrial relations in the undertaking. Management of the undertaking being in the hands of workers will ensure identification of the workers with the organisation and this will generate necessary motivation amongst the workers. Thus, usual employer *versus* employee or management *versus* worker conflict should come to an end.

Trust begets trust and a climate of confidence should set in where it is conspicuous by absence. The right of management will create the sense of responsibility if the normal laws of human response are to be true. This process will thus automatically develop responsible leadership amongst the workers. The workers, who conduct the affairs of the trade union or cooperative societies, have, in many cases, displayed high leadership qualities and are able to motivate their following to purposeful action.

The workers, with their own representatives conducting the affairs from the Board level, will take a balanced view of the interests of their own well-being and the well-being of the undertaking. The short-term problems will be approached with a long-term outlook and localised problems will be dealt with an overall consideration. A happy blend of hopes and aspirations of the personnel with the corporate objectives of the undertaking will lead to the realisation that to give is to take and prosperity can come only through perspiration.

Possible Objections

It will be said that it is too risky a venture to entrust the complete management of an undertaking to the workers. The undertaking may run into serious problems and difficulties and the government may be put into serious loss to retrieve the situation. As it is, many of the government undertakings are a serious burden on the government and the economy and huge losses are being incurred. The new approach, even if unsuccessful, will make only a marginal addition to the already high volume of losses.

It will be argued that the workers with their qualifications and background will not be suited to the top management role of decision making, since the decisions will have to be based on various considerations of a complex nature. This argument does not hold water on closer scrutiny, because the technical support in all the specialised areas of commercial management, financial management, personnel management or technical management will be provided by the experts of the undertaking in the same manner as it is at present being provided to the board of directors. If necessary, the board of directors can include one or two management experts who can provide the Board with necessary guidance in regard to the managerial aspects, but the overall responsibility of management will rest with the board of directors consisting of worker's representatives in a majority.

The administrative Ministry in control of the public undertaking and its associate finance will oversee and monitor the operations of the undertaking and regulate the basic and policy issues. For this purpose, the Articles of Association of the Company will have to be framed suitably. There will also be a monetary control through the scrutiny and approval of the periodical capital and revenue budgets of the Company in course of which the government can step in and provide necessary directions to the board of directors.

CONCLUDING REMARKS

The public undertakings have continued to grow in size as well as in number and more and more areas of the economy will come under its purview. Any step which secures workers' motivation for giving their best should be welcome.

The experiment suggested will have to be initiated only on a very small scale. The undertakings selected for the purpose of this experiment should not belong to any of the following categories:

(*i*) Vital and strategic undertakings from the point of view of national economy or security;
(*ii*) undertakings which are established in new fields of industry;
(*iii*) undertakings which are still in the gestation period; and

(*iv*) undertakings which have got multiple units located in different areas or multiple trade unions having different affiliations, as these factors will create problems regarding the homogeneity and unity of purpose amongst the members of the board of directors.

It is not impossible to select one or two undertakings which are suited for the new experiment. It is not essential that the existing state of industrial relations has to be cordial in such an undertaking, since one of the major aims of the experiment is to improve the climate of industrial relations and develop the motivation through active participation in the management.

In the management of public sector undertakings, various experiments have been conducted by the government and the policies have been modified from time to time. The deputation of government servants to the government undertakings, which was once the order of the day, has now come to a virtual end and the undertakings are building up their own cadre. In the case of some undertakings, the board of directors has been reconstituted on the basis of whole-time directors responsible for particular functional areas, instead of part-time official and non-official directors. A labour leader has been appointed as the chief executive with the status of a director in one undertaking. Since industrial relations and motivation of the workers are proving to be a serious handicap to most of the public undertakings at present, no experiment is too bold and unconventional to be discarded without a trial. □

Pricing Policy of Public Enterprises*

R.A. Deshpande

THE SCOPE of the public sector has increased steadily during the First and the Second Plan. Although the contribution of public enterprises to the national income is quantitatively small at present it has to become much more significant in the third and subsequent plans. The public sector includes an extensive range of enterprises, such as industrial undertakings, irrigation and power projects, railways, road transport, air transport, shipping, etc. The capital at charge of the Railways has risen from about Rs. 970 crores in 1950-51 to about Rs. 1,560 crores in 1960-61 and is expected to increase to about Rs. 2,300 crores at the end of the Third Plan. The total capital employed in electricity undertakings in the public sector, which stood at Rs. 70 crores in 1951 and at Rs. 330 crores in 1956, will be about Rs. 1,700 crores at the end of the Third Plan. A recent study by the Planning Commission of public sector enterprises shows that 19 industrial undertakings of the Central Government which have been completed and are in full operation have a total capital of about Rs. 171 crores, while 7 major undertakings, including Hindustan Steel, which are still in the construction stage, have a total capital of Rs. 562 crores. Apart from these enterprises and such long-established undertakings as the Railways and Posts and Telegraphs, the total capital employed in 20 other undertakings of the Central Government amounted in 1958-59 to about Rs. 175 crores. There are, in addition, a large number of undertakings managed by State Governments.

Several State undertakings are already earning profits and the general policy has been accepted that the maximum economic returns should be secured from all public enterprises, whether these are operated by the Central or State Governments directly or through corporations and companies. In the Third Five Year Plan the surpluses of public

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enterprises will play an increasing part in financing economic development, as during the Third Plan an amount of Rs. 450 crores is provided for surpluses of public enterprises excluding Railways for which Rs. 100 crores are earmarked separately. It is therefore significant that the working of the public enterprises in India plays an important part in the revenue system of the country. Hence the price policies of public enterprises assume an added importance in the economy of the country. In this paper an attempt is therefore made to study and analyse the factors concerning the price policies of the public enterprises and suggest suitable improvements, wherever necessary.

II

A growing source of governmental revenue in many countries is the profits of public undertaking. In under-developed countries public enterprises fostered on public revenues are expected to play a more positive role in financing the countries' development than similar enterprises do in developed economies. In determining the price policies of these undertakings considerations of maximising revenue will not play as important a part as profits do in private enterprises, but within the limits set by the necessity to foster economic development, their price policies are designed to bring in some profits to the countries' general revenues. Public enterprises in the under-developed areas are to break ground in projects which are the core of development. If such projects are to be financed on an increasing scale, the price policies have to be so designed that significant surpluses are left with the projects to be employed either for their own expansion or for financing the expansion of other projects. In other words, there should be an element of profit in the prices of their products or in the cost of their services to the public.

A brief reference to the role of surpluses from State undertakings in the revenue system of other countries may be useful before proceeding to examine in detail the position in India. Historically speaking, the development of tax system of most countries has been characterised by a decline in non-tax sources of revenue like public domain, etc. (which was an important feature of medieval revenue system) and an increase in the scope, rates and yields of tax revenues. In recent years particularly since the war, the trend towards increasing socialisation or state participation in economic enterprise has again led to some shift in emphasis in favour of non-tax revenues in several countries, though the general trend towards an increase in relative importance of tax revenues still continues. In countries with collectivist economies, of course, a predominant or larger part of public revenues is derived from non-tax resources; thus normally only about 10 per cent of the public

revenues in USSR is derived from general taxation and loans and the remainder from the profits of national enterprises and the turnover tax on the products of public enterprises which is also a commodity price determining factor. In other centrally planned economies, the position is not dissimilar though reliance on public enterprises may not be as large. Even in countries with private enterprise economies and in several under-developed countries, where one or two basic raw materials occupy an important place in their export trade, state trading has often provided significant amounts of revenue.

In the United Kingdom, in 1952 nationalised industries, with an aggregate capital of 200 million and a labour force of some two million workers, represented almost one-tenth of British industry. There the nationalisation, after the war, of certain basic industries such as coal, gas, electricity, transport has brought into existence some of the largest public undertakings of their kind anywhere, administered by a new type of public corporation. Most of the corporations are required by statute to conduct their affairs in such manner that over a period of years their revenues are sufficient to meet current expenditure; the period for balancing amounts is not defined being usually described as "one year taken with another" or "an average of good and bad years". The corporations pay all taxes, duties, rates and other charges, whether national or local.

France has a certain tradition of its own in the matter of public enterprise. After the war that country has made rapid strides towards nationalising key industries and credit institutions as part of its programme of national economic reconstruction. In 1945 France nationalised her air services and a large part of insurance and banking, including the Bank of France and the more important commercial banks. In 1946, the entire coal mining industry, except for a few small concerns, was nationalised and so were all undertakings engaged in the production and distribution of gas and electricity. The operations of public enterprises have, however, uniformly resulted in moderate deficits during the post-war years.

In some countries of South Asia and the Far East the role of the state covers not only ownership of certain basic industries but also state trading in one or two principal articles of export where substantial profits are obtained. In Burma exports of rice and timber are a virtual state monopoly and yield substantial profits, particularly rice.

The entry of government into commercial and industrial fields in India has in most cases not been determined by the expectation of making profits and adding to revenues. On the other hand the primary urges have generally been non-fiscal such as: (*a*) the undertaking of basic public utilities, *e.g.*, railway as well as projects of outstanding public benefit which are not expected to be remunerative in the short

period—irrigation and power projects, air services; (*b*) the setting up of basic industries of national importance such as steel and fertilisers generally to assist in broadening the base for industrial and agricultural development or of essential consumer goods industries which may also involve large investment of resources normally beyond the unaided capacity of private enterprise; and (*c*) the establishment of certain capital goods industries, *e.g.*, heavy machine tools, the returns from which are not immediate or certain and which therefore are less attractive to private enterprise, as the initiation of a pioneering enterprise with the object of inducing private entrepreneurs into new fields of industry, as in Mysore.

There are a few instances, however, where revenue considerations have played a principal part in the extension of state enterprise. But in most cases, the promotion of some broad public purpose seems to have been the main factor behind the extension of the area of State enterprise, though its operations have incidentally resulted in some profit.

III

The most intricate question in the public sector is that of fixing the prices of the products of industry and services. Generally speaking, the prices of privately produced goods in the market tend to represent both the utility of the goods to the marginal buyer and its average cost of production plus a profit to the producer. The position of the buyer of publicly produced goods is not materially different from that of the buyer of the privately produced goods. In countries where democratic freedom is still the keynote of economic and social policy, the consumer is at liberty not to purchase the publicly produced goods and services, which are not produced by anybody else. The consumer has, however, very little choice in the matter of refusing to buy such 'essential' goods and services. But, even in such cases the so-called 'necessary' goods may have a highly inelastic demand only for small quantities. The demand may be highly elastic for quantities beyond the minimum required. In other words, the buyer is no more coerced to buy publicly produced goods than he is compelled to buy privately produced 'necessaries' like bread, meat and medical services.

It is, however, in the sphere of supply, *i.e.*, prices at which various quantities will be offered by sellers in the market, that the position is entirely different in a public undertaking. Private industry must, in the long run, receive prices which cover total costs (including taxes) and provide sufficient net return to attract venture capital. Government, on the other hand, may allow extra commercial considerations to enter into the determination of its supply prices. Not infrequently they have to

conduct their operations not with a view to covering costs but to promote general welfare. For these reasons, while it is theoretically possible for government monopoly prices to be at a level above those which would be charged by competing or nearly competing private firms, in practice, prices may be comparatively low because government may not intend that the enterprise should be selfsupporting.

These elementary facts are often overlooked in debates on public *versus* private enterprise. It is sometimes argued that a public enterprise can justify its existence only when its receipts cover costs and contribute to the general funds amounts corresponding to what private enterprise would contribute in taxes. In all such arguments, the underlying idea is that public business must be as efficient as private business in terms of private business objectives. We should not lose sight of the fact that a public business which operates at a loss may well make a contribution to the income of the community through cheap gas, cheap electricity, cheap transportation or cheap postage far in excess of its operating deficit. As has been brilliantly pointed out by the distinguished American economist, Philip E. Taylor, in his "Economics of Public Finance": "The interests of government are invariably broader than those of private enterprise. The consequence to cost calculation of broader public interest is that almost every government produced good is more than one good; it is a good porviding individual utility to the buyer, while at the same time providing utility to the community in terms of more general welfare. The second is normally regarded as a by-product of the first and although there can be no exact science of allocating joint costs among multiple products, it is logical that the by-product should bear some share. It is upon this type of analysis that operation of some public industries at less than cost (the remainder to be made up from the genearl fund) can be justified."

The above explanation of the prices of the products and services of public undertakings does not imply that such enterprises should not be run efficiently. The efficiency of an undertaking is quite a different matter—it need have no direct relevance to a price policy. In determining prices in the public sector, it may be considered desirable to allocate a share of the cost of production to society in general (this would of course result in consumers receiving a virtual subsidy) but even if the price charged is less than the cost, it should be possible to operate the enterprise on a level of efficiency equal to that prevalent in a private undertaking.

The notion of efficiency as applied to an economic system is many-sided. There is the matter of getting the most for the least which is the commonplace engineering view of efficiency. There is also the problem of getting the particular things that are wanted. In addition, some reasonably full use must be made of the available or at least of the willing

labour supply. There must be some satisfactory allocation of resources between present and future production, between what is produced for consumption and what is invested in new plant and processes to enlarge future consumption. There must also be appropriate incentive to change to the adoption of new and more efficient methods of production.

Finally a somewhat different requirement and one that has gone for long unrecognised, there must be adequate provision for the research and technological development which brings new methods and (though one is permitted to deplore them on occasion) new products into existence. All this makes a large bill of requirements.

IV

The following are among the more important questions that arise in this connection: What part should considerations of maximum revenue play in the policies of state undertakings relating to the pricing of their products and services? In what manner and to what extent the general revenues share in such profits as the undertakings may make?

The principal public enterprises of the Central Government are Railways, Posts and Telegraphs, Broadcasting, Opium, Currency, and Mint and the various industrial undertakings in the public sector which have been started in recent years.

A brief statement may first be attempted of the pricing policies actually adopted by important categories of state undertakings.

Railways

Railways constitute the largest single source of non-tax revenues of Central Government and contribute to general revenues as under:

1959-60—Rs. 54.43 crores
1960-61—Rs. 56.66 crores
1961-62—Rs. 65.34 crores (Budget)

The net surplus earned by the Railways during the above three years are as under:

	1959-60 Rs.	1960-61 Rs.	1961-62 Rs.
Net Surplus	20.12 crores	14.03 crores	8.64 crores

The total capital at charge of the Indian Railways as on 31-3-61 is estimated at Rs. 1,559 crores.

From the above, it would be seen that the contribution from Railways to the general revenues has steadily increased.

As regards the rate fixation in the Railways, the Ministry has formulated the general basis of regulation of railway taxes and rates as follows:

Railways are no doubt a commercial concern in the conventional sense. As a State undertaking they owe it to the public, to provide transport at the cheapest rates consistent with the maintenance of their financial solvency and providing means for their development. Unlike ordinary commercial concerns, they must not aim at charging not necessarily what the traffic can bear but what is justified in relation to their costs of operation and essential development.

The rates and fares structure of Railways has been subjected to much experimentation. The introduction of 'telescopic class rates' on a continuous mileage basis in 1948 eliminated some of the short-comings of the previous practices. This was again modified in 1955. The Railway Freight Structure Enquiry Committee, of 1957 which went into the question again found that the 1948 rating scheme had outlived its usefulness. It recommended regular and progressive increases through a percentage system based on a norm or standard rate from the lowest class of goods to the highest to form an integrated scale covering the rating both by class of goods and by wagon-loads. The main defect of the structure proposed by the Committee was that it would have the effect of putting a premium on long-distance goods traffic and penalising shorter haulages. In adopting a new freight structure towards the end of 1959 government therefore modified the Committee's recommendation so as to avoid the above result. Two norms, instead of one recommended by the Committee, were adopted for the percentage system of increase.

The scheme of passenger fares has been also subjected to change and counterchange. In 1948 passenger fares were standardised all over the country by substituting a flat rate basis for telescopic fares. In 1955 again the telescopic rates were re-introduced in order to afford some relief to long-distance passengers.

The development of the railways in the past was guided not so much by purely commercial considerations as by considerations of general economic, social and political interests which the Railways were required to serve from time to time. From the very early stages of railway development, the railway rates have been subjected to Government regulation. The Indian Railways Act, 1890, enjoined special obligations on the railway administration in the matter of avoidance of undue preference or prejudice in rating.

The Railways' rating structure is much less based on the cost of the service provided by the Railways than on 'the value of service' or what is commonly known as the principle of "charging what the traffic will bear". Thus the rates of certain basic commodities like coal, foodgrains, etc., are kept specially low in keeping with the economic require-

ments of the country. There are a number of other important social obligations which the Railways have to shoulder by virtue of their role as a public utility undertaking. As a common carrier, the Railways cannot refuse to carry any goods offered to them or discriminate between what to carry and what not to carry. Again, the rates have to be made public and any rates charged by the Railways can be assailed before the Railway Rates Tribunal as being unreasonable or as resulting in "undue preference or undue prejudice". Also the Railways in India, as in almost every other country of the world, have to operate uneconomic branch lines or sections. Again, the Railways provide suburban or what are known as the commuter services in large cities. Cheap season tickets are provided and the frequency of train services has to be maintained to meet the requirements of peak traffic. The Railways also provide a number of concessions and facilities on social and defence considerations. These include various concessions given to students, Bharat Scouts and Girl Guides, blind persons, etc. The total value of the more important among these concessions given by the Railways during 1958-59 is estimated to be about Rs. 3.6 crores. Moreover, the Central Government has powers under the Indian Railways Act to direct any railway administration, in the public interest, to give preference to the transport of such goods or class of goods, as may be specified by it and such directions are generally given in respect of low-rated traffic like coal, mineral ores for export, industrial raw materials, etc. The Railways have to provide transport facilities for this traffic notwithstanding the arrears of high-rated traffic waiting to be moved. The Neogy Committee on Transport Policy and Co-ordination which examined this aspect of Railways has opined that it is not possible to make any estimate of the financial implications involved in the Indian Railways carrying out such orders of government from time to time. This clearly shows why Railways should not be treated purely as a commercial concern and its working compared to other private enterprises purely on profit and loss basis.

Other Enterprises

The following concise account gives some indications of the pricing policies followed by other public enterprises in the Central sphere:

1. The price of ammonium sulphate in the Sindri Fertilisers is determined after taking into consideration the costs of production, price trends in foreign markets and the purchasing power of the consumers.

2. The prices of coal obtained from state-owned collieries are fixed under the Colliery Control Order, 1945, on the basis of cost of production plus a reasonable margin of profit.

3. The price of salt produced by three commercial concerns

(Sambhar, Kharashode and Mandi) is fixed on a 'no profit no loss' basis.

4. Ocean going ships are sold at prices based on the UK parity, *i.e.*, the price which would be payable if the ships had been constructed in shipyards in the UK. However, in order to enable the Indian shipping companies to purchase ships built in the Visakhapatnam Shipyard at prices payable for similar ships constructed in the UK, government has decided as a temporary measure, through a subsidy, to meet within certain limits the difference between the actual cost of construction and the prescribed sale price.

In the case of the DDT Factory at Delhi under agreement with the United Nations who supplied the plant, the product is to be sold on a 'no profit no loss' basis.

5. The rate making policies in respect of electricity in different States are not uniform, but the general policy has been that the tariffs should be fixed so as to provide for all reimburseable costs to cover generation, transmission and distribution including expenses of operation and maintenance and interest and depreciation charges. As a rule, tariffs for industrial consumption of electricity are lower than for domestic consumption.

6. The pricing policies of commercial and industrial undertakings of State Governments vary and are not always based on strict commercial principles. In the case of steel produced by the Bhadravathi Works of the Mysore Government, in accordance with the general policy of the Government of India, a selling price is fixed by the government to protect consumer interests and at the same time there is a retention price to ensure a reasonable return to the units engaged in the industry.

7. The industrial concerns owned by the Travancore Cochin* and Mysore Governments generally fix prices on commercial lines; the prices of goods are fixed on the basis of the cost of production (including depreciation and interest charges) plus a fair margin of profit after taking into consideration the current market prices of similar products.

The present system of irrigation charges in India has developed differently in different States, with the result that there is multiplicity both in the principles and in the rates of assessment. "A broad classification of these prevailing systems is, however, possible and is as under:

(*i*) those payable by cultivators in return for the services of irrigation and thus forming an item in the cost of production; and

(*ii*) those payable by the owners of the lands benefited in consideration of the increase in the value of the land."

*Now Kerala.

In the case of more recent irrigation works, the water rates do not yield receipts even to cover the water service costs but in some older works, *e.g.*, in Andhra Pradesh, Punjab and Uttar Pradesh, the government concerned realises some profits. The scale of water rates being largely dependent upon the economic and other circumstances of the area commanded by the works, it takes the character of a service charge in some areas and of a tax in other areas.

The rates charged by the nationalised State Transport Corporations are generally based on the principle of meeting out the costs of the operation and leaving a fair margin for depreciation, and development. The rate charged by the Bombay State Road Transport Corporation is 9 pies per mile and the Hyderabad Transport Undertaking charges 10-27 pies per mile and the Travancore Cochin* charges only 6 pies per mile.

8. The postal system has widely come to be recognised as a public enterprise in which service rather than revenue is the test of success. Some countries like France and England have derived substantial revenue from their postal system, assisted by high density of population, while others like the US with their great expanse of territory have often shown deficits. Many countries only charge rates designed broadly to cover costs of operation and bring in moderate net receipts. Such a policy also governs the operation of our own system and appears to be appropriate in respect of this elementary public service.

Thus we find no clear principles or policies have been laid down for any enterprise and no general statement about price policy is available. 'National interest' is supposed to guide the price policy and when determining prices, the prices of imported products, the interest and capacity to pay of the consumer, the general requirements of the economic system, all these are taken into account and an ad hoc decision is arrived at. Many industrial enterprises in the public sector sell the bulk of their products to some government agency and the price policy there is based on a 'Cost Plus' basis.

All this indicates that the prices of the products by many important industrial enterprises in the public sector are decided as a matter of deliberate policy and not automatically determined.

V

In considering the pricing policies appropriate for other public undertakings a distinction may be drawn between undertakings which work in a competitive field and those which operate under monopolistic or semi-monopolistic conditions. It happens that the products of the

*Now Kerala.

former category of undertakings generally fall within the broad range of consumer goods (*e.g.*, those of some of the industries in Mysore State). There are normally no considerations of public purpose which should deflect these undertakings from following a pricing policy directed towards maximising profits from their operations. The main limitation to the pursuit of such a policy derives from the existence of competition from the private enterprise. Pricing policy thus operates in these cases within a narrow framework. The nature and degree of competition together with the character of demand determine in respect of such undertakings the application of a pricing policy based on maximising profits.

Where, on the other hand, a public enterprise works under conditions of monopoly or quasi-monopoly of supply and sometimes also of demand (*e.g.*, in regard to milk powder for tea and coffee in restaurants in Bombay city where the use of fresh milk is prohibited), the ability of the State to make profits by fixing prices, at a high level, is greater.

Pricing policy in such a case acquires a significance different from that under conditions of competition and the considerations that should guide the fixation of prices assume a relevant and more positive role. It happens, however, that the goods or services produced by public undertakings of this category are often of the basic or essential type, the prices of which it is usually considered desirable to maintain as low as possible. 'Basic' and 'essential' are relative terms and policy must vary according to the degree and essentiality of the product, the nature of service provided by the enterprise, the size of the market, the choice of consumers and their paying capacity in respect of consumers goods and the type of industry and its condition in respect of producers or capital goods.

It is considered that normally such undertakings should operate on the basis of meeting their full costs of production including adequate depreciation provision (taking account of higher replacement costs) and a reasonable return on capital and as a rule subsidisation of prices should be avoided. Where revenue requirements necessitate the levy of taxes on commodities or services which are as 'basic' or 'essential' as those which are the products of State enterprises, the State need not regard itself as being precluded from using its monopolistic or semi-monopolistic power, to secure larger revenues by an appropriate price policy.

It may be thought desirable, however, during an early developmental phase to keep prices low, even if this involves incurring losses, with a view to encouraging demand and widening the market. It ensures the profitable working of an enterprise over a long period. The problem is particularly important in the case of public utilities like electricity

where the practice of 'promotional' pricing in the initial phases of project is calculated to obtain ultimately the best results. In respect of other semi-monopolistic undertakings producing a basic article like fertilisers, a measure of subsidy in the initial period may be given as a matter of policy.

On the other hand, in certain cases where the State has made substantial investment, a policy of regulating policy so as to secure an adequate return on the capital invested is not only unobjectionable but may indeed be desirable. This is particularly so in the conditions of economically under-developed countries where public enterprise itself, fostered at State expense, may in turn play a role in financing the country's development.

Water rates have long been fixed in the canal systems in Punjab and Uttar Pradesh on the basis of securing for the exchequer a share in the additional yield derived by the cultivator from land over and above that of meeting the current costs of irrigation and interest on capital. The reinforcement of public revenues thereby has assisted in the past in the accelerated development of additional projects in those areas.

This is equivalent to the process, as applied in the field of public enterprise, of re-investment or ploughing back of profits which in private enterprise has been a principal means of financing development in recent years. There appears no objection to pricing policies which aim, over a long period at realising a surplus from the operation of State undertakings in such cases.

In some of the advanced western countries there is less emphasis on the revenue aspect of State undertakings and public enterprises mainly engage themselves in operating nationalised public utilities while economic progress remains primarily the direct responsibility of the private enterprise. In India, on the other hand, State initiative and enterprise have a more dynamic role to play in the process of economic development and public undertakings in the main do not conduct activities which are 'taken over' from private enterprise but break new grounds. Not only do they seek to supply the basic framework of economic development in the form of transportation, power, irrigation, etc., but they provide in some ways the core as well as a not insignificant part of the content of economic development, in capital and producer's goods industries.

Many public enterprises are normally of slow yielding character. There is besides the tendency towards high costs in state enterprise on account of its obligation to assure a given standard of wages and amenities to labour and a higher standard of service to consumers. If in the face of these liabilities some State enterprises are able, after a formation phase, to earn more than modest profits, which assist in maintaining the tempo of public investment, no doctrinaire concern with a policy of

'breaking over' should deter them from making their contribution to the financing of further development. A policy of 'no profit no loss' may be appropriate for public utilities in an advanced country, and is perhaps the best to be hoped for in the earlier stages of working of some public enterprises here. But this cannot be recommended as the long-term goal for public enterprises or as a permanent policy for most State undertakings in India.

Public purpose rather than profit should be the guiding factor in the operation of a public undertaking but the antithesis is more apparent than real. In the public sector profit is not necessarily inconsistent with public purpose. On the other hand, it may itself constitute a public purpose, even if it remains secondary. In public enterprises the first objective, of course, is maximum service combined with maximum efficiency with a view to the widest extension of social welfare and economic development. Consistent with these, a certain measure of profit, and in some circumstances even a significant amount of profit, should not be precluded under the broad principles which regulate pricing policy.

Apart from the Railways and Posts and Telegraphs, the total capital outlay of Central and State governments on electricity, irrigation, road transport and industrial undertakings which are in full working is substantial, but the net income from them is insignificant; many of these undertakings have been in existence for some time and should be in a position to yield net returns. It is therefore desirable that every effort should be made to earn profits from these concerns to the maximum extent possible, consistent with the public welfare.

The argument that it is wrong to tax the consumer of a particular product or service in order to help the general taxpayer, often underlies the objection to running public enterprises at a profit. This may perhaps be relevant where substantial profits are made out of a limited clientele for the benefit of the wider community of taxpayers. Even here, there would be a case for making profit, provided its incidence falls on the well-to-do classes and the benefits its finances accrue to the larger community of the not-so-well-to-do. In any case the argument has much less relevance to public enterprises which involve huge investment and cater to a vast circle of beneficiaries and the returns from which contribute to the widening of the range of their operations so as to progressively extend their benefits to more and more people.

It is true that as a form of taxation, profit from public enterprise has less to commend it than direct taxation, but it must also be noted that it is not less suitable as a means of raising revenue than many of the indirect taxes to which resort is necessary in the alternative. It is therefore emphasised that in considering pricing policies of state undertakings, in a comparatively under-developed country like ours, regard must be had to the need for relating them to the economic and institu-

tional context in which they operate rather than to the standards that are more appropriate to the conditions obtaining in the advanced economies such as those of some of the western countries.

A seminar on Management of Public Industrial Enterprises held in New Delhi in December 1959 under the auspices of the UN Economic Commission for Asia and the Far East, the UN Division of Public Administration and the Bureau of Technical Assistance Operations examined this aspect of pricing policy of public enterprises. The seminar agreed that the goals of management in public enterprises could not be separated from national objectives. However, earning of profits was not in any way incompatible with the public nature of enterprises. Running of public enterprises at a loss was not justified except during a developmental period or in special circumstances when national interest justifies it.

The Krishna Menon Committee on State undertakings, appointed by the Congress party in Parliament in April 1958, which submitted its report in November 1959, observes regarding the pricing policy of public enterprises as under:

> We have stressed in these pages the importance of incentive and healthy competition and emphasised that concerns must be able to stand on their own legs for efficient and proper conuduct of business... The considerations that should govern prices appear to be the following. Consumer prices have to be based upon general market prices and other factors as well. The decision as to what economy in cost has to be passed on to the consumer on the one hand or should benefit the taxpayer on the other and the likelihood of non-availabilities and, therefore, of scarcities in the near future has also to be considered. The principle of 'what the traffic can bear' has also to be taken into account.

Dr. V.K.R.V. Rao, in his article on "Prices, Income, Wages and Profits in a Socialist Society" published in the AICC Economic Review dated the 22nd July, 1959, says that:

> Prices in a socialist society will be socially determined. Broadly speaking, there will be for purposes of calculation two sets of prices—one which may be economic price and the other which may be called the social price; the first would correspond, to the extent that any such correspondence is at all possible, to the normal price in classical economy while the latter may correspond to the market price of classical economy, including such indirect taxes as the State may impose for the purposes of mobilising resources. The economic price would cover the cost of produc-

tion of the commodity including an allowance for replacement plus a normal profit that would include an allowance for expansion or capital formation and an allowance for maintenance and non-investment activities of the State. The actual price that will be charged will depend partly on the extent of the rate of capital formation envisaged by the community and partly on the requirements of the maintenance and non-investment expenditure of the community. The actual price of individual commodities will also turn upon social policy regarding the desirability of promoting or discouraging the consumption of the commodities concerned, but it is absolutely imperative in a socialist society that there will be a clear understanding and calculation of the economic price of each commodity. If this is not done, it would be very difficult to have a rational policy regarding both allocation and utilisation of resources in the community.

As regards profits, it should be pointed out that contrary to some popular notions on the subject, profits have an important place in a socialist society, the difference between the economic price and the social price would be what may be called the planned profit and this would largely correspond to the excise duties and sales tax and other indirect taxes that are imposed in a capitalist society. These planned profits being no more than a way of mobilising resources and making them available to the community for purposes both of investment and maintenance expenditure. Profits also have another important role to play in so far as they relate to the economic price itself. The economic price fixed at any particular moment of time is obviously based on the capital, technique and productivity of the given base period when this price is fixed; any improvement in productivity is bound to lead to a decrease in the cost production and in turn this would lead to the emergence of a surplus within the economic price itself and that would be a surplus which will represent a measure of the nation's increase in productivity. This surplus would not be the result of the policies laid down at national level as in the case of difference between the economic price and the social price. On the contrary, it would represent the result of the motivations and efforts of a larger number of persons engaged in productive activity. Hence the importance of arranging for proper incentive to stimulate the creation of this kind of surplus. That is the reason why in socialist societies now-a-days, individual enterprises are permitted to retain a larger share of such surpluses as they may create by an increase in productivity, this larger share to be used by them partly for increasing individual incomes of those engaged in the enterprises and partly for giving an opportunity to the enterprises in question to build up the financial

resources needed for following their own independent investment policies.

Public enterprise must be carried on a profit-making basis, not only in the sense that public enterprise must yield an economic price in the terms described in a previous section but must also get for the community sufficient resources for financing a part of the investment and maintenance expenditure of government. Increasingly, the share of the profits of public enterprises in financing the investment and maintenance expenditure of government must keep on increasing. It is not only the expenditure on the public sector as such that will indicate the march of the economy towards its socialist goal. Even more important is the increasing role that the public sector must play for finding the resources needed for meeting both the maintenance and investment expenditure of government. This involves a price and profit policy in regard to public enterprise which goes against accepted opinion so far in regard to public enterprise. The theory 'no profit no loss' in public enterprise is particularly inconsistent with a socialist economy, and if pursued in a mixed economy it will hamper the evolution of the mixed economy into a socialist society. The sooner, therefore, this theory of 'no profit no loss' in public enterprise is given up and the policy accepted of having a price and profit policy for public enterprise such as will make the State increasingly reliant on its own resources (as distinguished from taxing the personal incomes of its citizens), the quicker will be the evolution of a socialist society.

Prof. J.K. Galbraith, the well-known US economist, in a note submitted to the Government of India, has pointed out that both in the capitalist United States and the communist Soviet Russia the profits made by an undertaking are one of the important tests of its efficiency. The efficiency of a public sector undertaking should be measured broadly by the efficiency of its operation and by ability to organise ample production at low cost and sell at remunerative prices. He further states that public ownership that contents itself with avoidance of loss or a modest profit which it returns to the treasury will inevitably prove a stagnant form of economic organisation. He suggests that the public sector enterprises must be run in such a manner as to yield surplus for future expansion. This suggestion *per se* is unexceptionable. In fact, the planners, taking the cue from Dr. V.K.R.V. Rao's note on the subject, have already provided for Rs. 450 crores as 'surpluses of other public enterprises' in the resource budget of the Third Five Year Plan.

In adopting a workable pricing policy for public sector, the government should make sure that such a policy does not allow any scope for

book keeping jugglery or for the adoption of 'window dressing' techniques by managements.

VI

It is often assured that a public enterprise is just like any other enterprise, except that it happens to be owned by the State, and that it should therefore try to behave, as far as possible, like an ordinary business. It is, however, clear that such advice cannot be taken literally. In a developed country, perhaps, where a public enterprise is operating side by side and in competition with well-established private business, the instruction to behave commercially may provide a sensible, if rough-and-ready, guide to directoral policy. As, however, commercial behaviour primarily means searching for the maximum profitability it can hardly be recommended to boards of state-owned enterprises. They always have to be regulated in the public interest, which is rarely served by their 'spontaneous' commercial behaviour. When state-owned, they must either develop, as a guide to policy, their own conception of the public interest, or else have one imposed upon them by the responsible minister. Even the 'Herbert' Committee, which recommends that the Central Electricity Authority in Britain should be guided solely by 'commercial considerations', obviously does not mean that the national generation and distribution of electricity can be organised on principles not different from those accepted by an ordinary private business, for the 'considerations' it has in mind are not those of maximum profitability. It does not, for instance, recommend that the Authority should close down its high-cost generating plants—a step which would be contrary to the public interest—but that it should endeavour to bring unit costs and unit charges into closer relationship, in order to discourage consumption of the higher-cost units, spread the load and thereby ensure that existing and projected generating equipment shall be used more economically. Yet if the production of electrical energy were in private hands and not subject to State regulation it might well be that the former method of satisfying 'commercial considerations' would prevail.

Even in a developed country, therefore, the commercial behaviour of public enterprises may have to be not different from that of private enterprises and that it is doubtful whether the use of the same term to cover both types does more than darken counsel. In an under-developed country, the term becomes even more ambiguous. Enterprises are started which private investors would consider extremely bad risks; they are run, for considerable periods, at losses that would cripple the private capitalist; they receive State-provided capital on distinctly non-commercial terms; the prices of their products may be fixed at levels that the private businessman, operating in the same field, would consider

ridiculous; their costs may be deliberately inflated by the fixation of wages and the provision of welfare services at levels unrelated to the demand for and supply of labour. Admittedly, such defiance of commercial considerations may, in given circumstances, be mistaken even disastrously so; but all these unbusinesslike policies have in other circumstances justified themselves from the standpoint of economic development. Indeed, the first two may have to be boldly pursued if there is to be any economic development at all. To demand commercial behaviour in the ordinary and accepted sense of the term, therefore, is to cry for the moon; for a public enterprise is, in the majority of cases, actually brought into existence to do things which the ordinary business-man is unprepared or unwilling to do. The enterprise, in fact, is not just an ordinary business in which the State happens to hold the capital; it is an agency of economic development.

If this important qualification is borne in mind, we can be safe in saying that the price policies pursued by public enterprises need to be directed by the government towards the fulfilment of certain primary economic aims, *viz.*, (*a*) maximum utilisation of the existing stock of capital; (*b*) accumulation at the projected rate; (*c*) stimulation of certain types of consumption at the expense of others; and (*d*) provision of the strongest possible incentives to efficiency.

VII

The question now arises how the consumer's interest can be protected in public undertakings, most of which partake of the character of 'insulated' monopolies. That the existence of monopoly exposes the consumer to exploitation by the supplier is seldom, if ever, disputed. Now, in a private enterprise competition provides the 'natural safe-guard' for the consumer although the primary aim is to maximise profits and service is rendered to the consumer only as incidental consequence, the forces of competition help to bring the prices to the level of actual costs. In a public enterprise, on the other hand, the 'take it or leave it' attitude is likely to dominate and make it extremely difficult for the consumer to influence price policy. A special responsibility therefore rests on government which must ensure that there is real community of interest between the producer and the consumer and that the monopolistic situation is not exploited by the workers of the undertaking who are much better organised than consumers.

The device of consumers' councils has, therefore, been adopted in many countries with a view to protecting the interests of consumers. In the UK, for instance, special provisions have been made for such councils in some of the national Acts, while in France the boards of management themselves include representatives of consumers. In

practice, however, these councils or consultative committees have not been able to function effectively, partly because they have not been very representative and partly because really important matters which affect production and prices have often been withheld from such bodies. The Air Transport Corporation Act, 1953 in India provides for the establishment of an Air Transport Council, which, among other things, has the power to study the passenger and freight rates and make recommendations to government. The Road Transport Corporation Act of 1950 and some other State undertakings unfortunately do not provide either for consumers' councils or any advisory bodies.

At bottom, the problem is one of the degree of public awareness of the dangers of the monopolistic situation inherent in a public undertaking. The modern industrial giant—whether it operates in the public or the private sector—disposes of its goods and services to an amorphous mass of consumers who are unorganised and helpless before the combination of producers on the one hand and that of workers on the other. A monopolistic or quasi-monopolistic concern under public ownership has the additional advantage that it is supposed to work in the 'national' interest and as such to be fully conscious of the consumers' needs, although in practice it may not be so. There is a grave danger that costs may rise abnormally in a public undertaking owing to the attitude of labour confronted by rising costs, the boards of nationalised undertakings may be tempted to try the easy way to solvency through the consumer's pocket in preference to the hard road through improved efficiency and economic use of manpower and other resources.

CONCLUSION

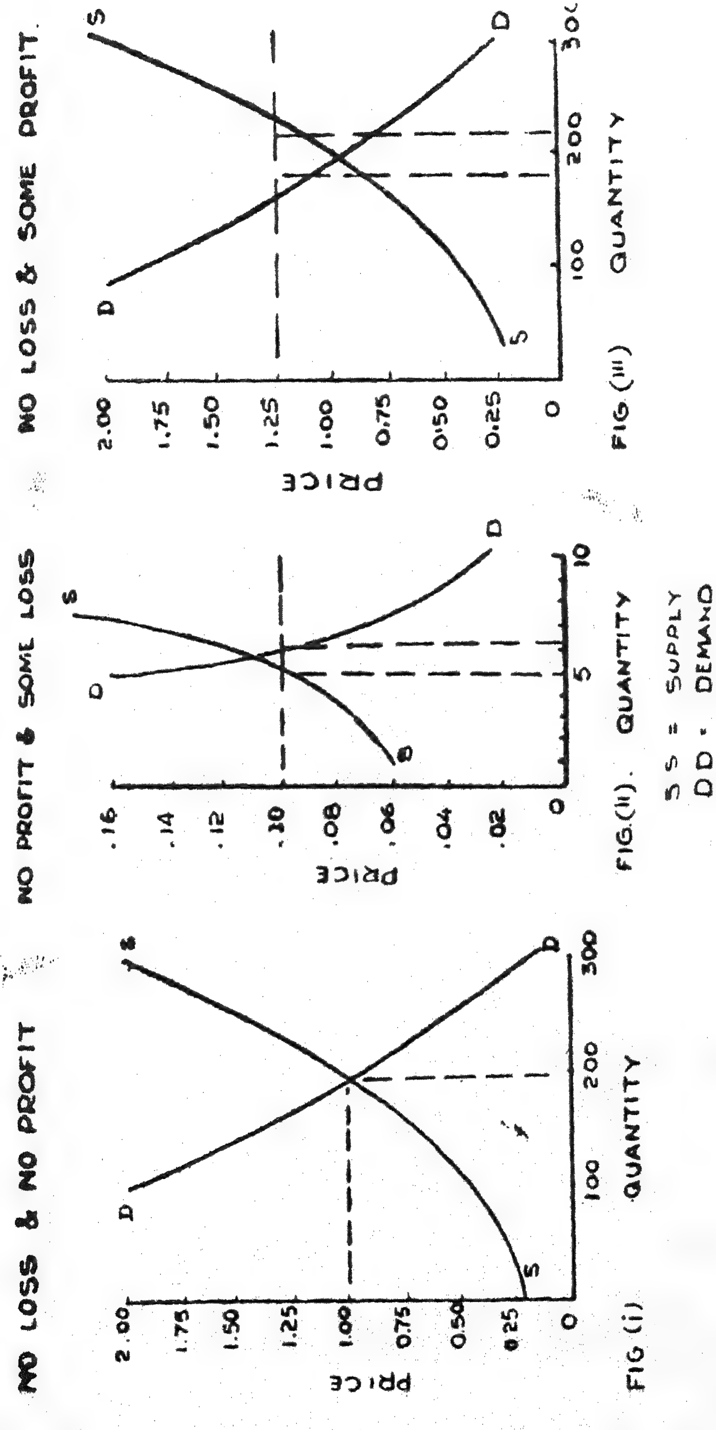
From the above discussion, it is clear that the pricing policy for public enterprises is to be regulated according to the following three different principles:

(*i*) No loss and no profit.
(*ii*) No profit and some loss.
(*iii*) Some profit and no loss.

The above three positions are clearly illustrated in Diagram 1 on next page which shows the position of price fixation under each principle.

No one principle can, however, be applied universally. Ordinarily the prices must cover the maintenance charges, which should include provision for replacement and development and the rate of interest on the capital invested. But to this, there would be several exceptions. A policy of no profit and some loss would be justified in certain cases.

DIAGRAM 1


NO LOSS & NO PROFIT
FIG (i)
PRICE
QUANTITY
2.00
1.75
1.50
1.25
1.00
0.75
0.50
0.25
0
100
200
300
NO PROFIT & SOME LOSS
FIG.(II).
PRICE
QUANTITY
.16
.14
.12
.10
.08
.06
.04
.02
0
5
10
NO LOSS & SOME PROFIT.
FIG (III)
PRICE
QUANTITY
2.00
1.75
1.50
1.25
1.00
0.75
0.50
0.25
0
100
200
S S = SUPPLY
D D = DEMAND

But a policy of some profit and no loss would be justified where a benefit has been provided for a fairly well off area.

The practical application of the above principles has been examined in detail in the following example of price fixation in public enterprises in order to analyse the considerations that will have to be taken into account while fixing the price policy.

(*i*) Pricing policy in respect of city water supply scheme: Let us assume that government has constructed the Protected Water Supply Scheme for city A at a cost of Rs. 40 lakhs and the estimated capacity for supply is 20 lakh gallons per day. The cost price per 1,000 gallons on the basis of no profit and no loss, but which includes provision for depreciation, rate of interest on the capital and annual maintenance charges, is Rs. 2 and the daily cost of production is Rs. 4,000. But the demand for water at this price is only 4 lakh gallons per day as against the estimated supply of 20 lakh gallons.

Now if the price is reduced to Rs. 1.50 per 1,000 gallons the demand for water would go up to 10 lakh gallons and if it is further reduced to Rs. 1.25 it would go up to 16 lakh gallons, and finally if the rate is brought down to Re. 0.75 the demand would be 20 lakh gallons per day.

Now the question is which should be the price fixed for the supply of the water in the above case?

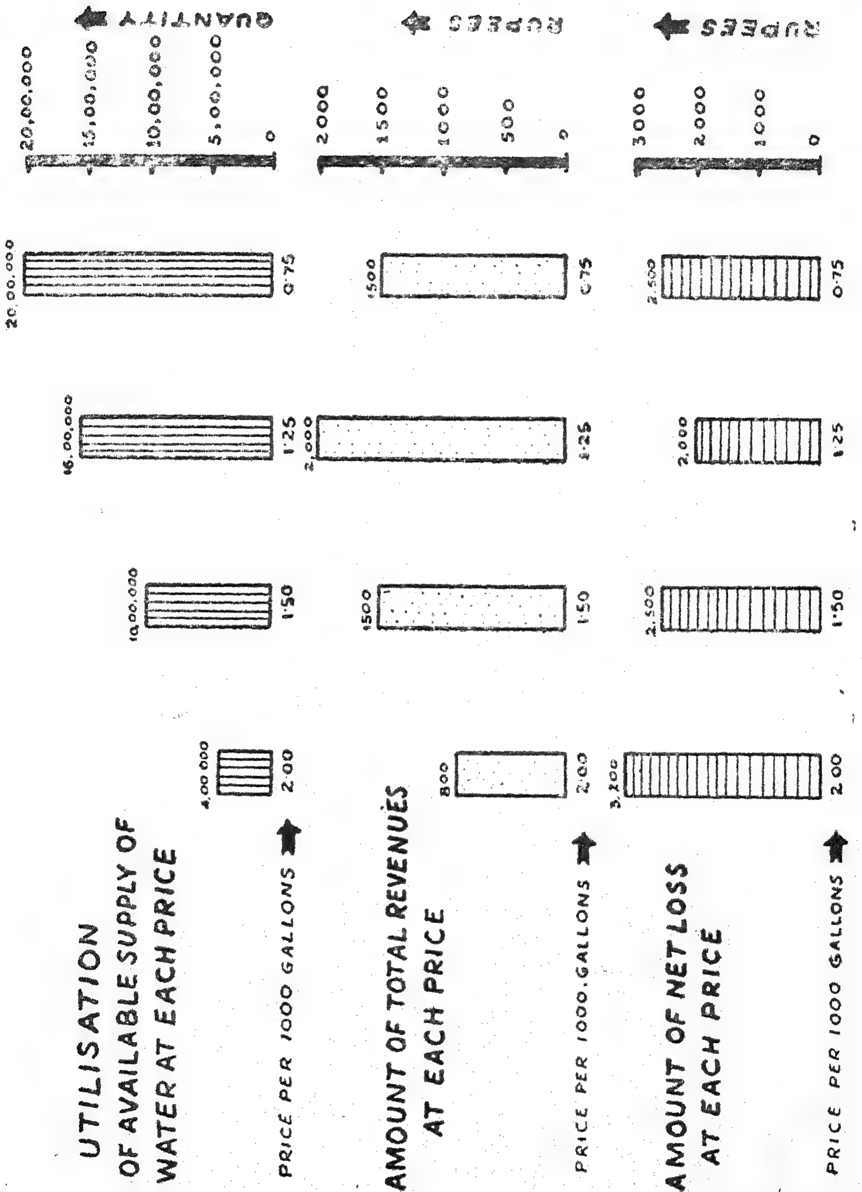
Let us analyse the considerations that should govern us while fixing the prices in such cases:

(*a*) Utilisation of existing stock of capital.
(*b*) Total revenue.
(*c*) Net loss.

From the point of maximum utilisation of the existing stock, *i.e.*, the utilisation of the available supply of water, the maximum benefit would be derived when all the available supply is consumed by the people for whom it is meant. This can only be ensured by fixing the price at Re. 0.75 per 1,000 gallons.

Price per 1,000 gallons (Rs.)	*Total quantity of demand (Gallons)*	*Total revenue (Rs.)*	*Net loss (Rs.)*
2.00	4,00,000	800	3,200
1.50	10,00,000	1,500	2,500
1.25	16,00,000	2,000	2,000
0.75	20,00000	1,500	2,500

DIAGRAM 2


UTILISATION
OF AVAILABLE SUPPLY OF
WATER AT EACH PRICE
PRICE PER 1000 GALLONS
QUANTITY
20,00,000
15,00,000
10,00,000
5,00,000
0
4,00,000
10,00,000
15,00,000
20,00,000
2.00
1.50
1.25
0.75
AMOUNT OF TOTAL REVENUES
AT EACH PRICE
PRICE PER 1000 GALLONS
RUPEES
2000
1500
1000
500
0
800
1500
2,000
1500
2.00
1.50
1.25
0.75
AMOUNT OF NET LOSS
AT EACH PRICE
PRICE PER 1000 GALLONS
RUPEES
3000
2,000
1,000
0
3,200
2,500
2,000
2,500
2.00
1.50
1.25
0.75

But from the point of total revenues and net loss, the position would be quite different. Only when the rate is at Rs. 1.25 we would be able to earn the maximum revenue and the net loss would be less than all the other situations. Besides there would be scope for further development and increase in the rate as the demand is likely to increase in future and the demand can be met within the existing supply.

In the above circumstances, the public interest would be best served by fixing the rate at Rs. 1.25 per 1,000 gallons, as then, the national interest, considered from all points can be best served. The position in each case is illustrated in Diagram 2.

The above example would only show that there cannot be any hard and fast rules for the fixation of the prices and it will have to be a pragmatic approach depending on circumstances. ❑

Efficiency and its Evaluation in Public Enterprises*

Parmanand Prasad

THE RECOMMENDATIONS of the sub-committee of the Congress party in Parliament on "Parliamentary Supervision Over State Undertakings"[1] (Chairman: Shri V.K. Krishna Menon) have been under consideration by the government for quite some time now. One, among the other recommendations of this committee, related to the appointment of a separate committee of Parliament for examining the working of public enterprises. In India, opinion in favour of such a committee began to be canvassed since the late speaker of the Lok Sabha, Shri G.V. Mavalankar,[2] wrote to the Prime Minister "that there was a general feeling that a standing Parliamentary Committee might be appointed to see, from time to time, how these corporations, etc., were working and to make suggestions for improvements". The idea behind the establishment of such a committee has been borrowed basically from Great Britain. The British Select Committee has, so far, done a good job and has produced four first rate reports. In the opinion of many experts, however, the defect of the British model is that there is no provision of expert advice to aid the committee.[3] It may well be that, in the process of imitating, we may blunder into the folly of the British model. It is being said that if the British Parliamentary Committee can do without such an aid, why must we have it. It is also being urged that we should wait till either the British have it and prove its worthwhileness or the members of the Indian committee make a demand for it. In this connection Prof. Hanson's view[4] that, "an *effectively* staffed organisation

*From *Indian Journal of Public Administration*, Vol. VII, No. 1, 1961, pp 39-56.

[1]*Parliamentary Supervision Over State Undertakings*, Report of the Sub Committee of the Congress Party in Parliament, New Delhi, Congress Party in Parliament, 1959.

[2]*Ibid.*, p. 38, para 110.

[3]William A. Robson, *Nationalised Industry and Public Ownership*, London, George Allen and Unwin, 1960, pp. 203-11.

[4]A.H. Hanson, *Public Enterprise and Economic Development*, London, Routledge and Kegan Paul, 1959, p. 387.

for checking the efficiency of public enterprises is a 'western luxury' ", is also being freely—rather too freely—used.

It would be wrong to claim that there are enough cost accountants or well informed managers in the country to do the kind of job expected of them in the west. It may also be true in some respects that it would be a 'misapplication' of scarce and valuable manpower to use such talent as members of the internal or external audit units instead of asking them to run enterprises directly. Although it would be unfair to say that improved methods of management functioning are completely absent from the Indian scene,[5] from information available from the enterprises and other sources,[6] it does not appear that there are in vogue any *systematic and improved* costing, budgeting and internal or external evaluation methods. The absence of such a system is only partly due to the scarcity of personnel. The lack of sufficient awareness about the importance of the need for the control of cost and the maintenance of a high level of efficiency, it seems, accounts for it more.[7]

The performance of public enterprises was the subject-matter of a debate in the Lok Sabha on the 13th and the 14th December, 1960. The discussion was raised by Shri H.C. Mathur (Congress) who wanted Government to come out with its decisions on the recommendations made by the sub-committee of the Congress party in Parliament on State Undertakings. Shri Mathur complained of scanty reports, insufficient discussion in Parliament, defective staffing pattern and a return of less than 5 per cent on an investment of about Rs. 170 crores in the public enterprises. Some members, who took part in the debate, were, however, very critical, in fact—in some cases almost cruelly so. For example, Shri R.K. Khadilkar (Independent) described the public sector as a 'functioning anarchy'. Shri Jaipal Singh (Independent) complained

[5]Some of the Indian enterprises are quite ahead in this respect. The Hindustan Aircraft, the Indian Telephones, the Chittaranjan Locomotives and the Steel factories have set up some kind of labour norms for production. They have got Industrial Engineering Divisions as well. Work study, quality control, setting up of standards regarding the use of raw materials, fixation of targets of output for direct workers and other methods of cost control are in use in the D.D.T. factory, Sindri Fertilisers, the Hindustan Aircraft, and the Delhi Transport Undertaking. The Indian Railways have established efficiency units. The Indian Airlines Corporation has also moved in this respect after the publication of the Report on the Cost Structure of the Indian Airlines Corporation in 1959.

[6]See, for example, *Report on the Cost Structure of the Indian Airlines Corporation*, Ministry of Transport and Communications, 1959, p. 1, paras 2, 9 (*b*)(*c*) and (*d*).

[7]Reference may also be made to the *9th and 16th Reports of the Estimates Committee* (First Lok Sabha), *19th Report of the Estimates Committee* (Second Lok Sabha), and *Report on the Cost Structure of the Indian Airlines Corporation, op. cit.*, See also Parmanand Prasad. *Some Economic Problems of Public Enterprises in India*, Leiden, H.E. Stenfort Kroese, N.Y., Chapter III.

of 'profiteering' by them. Other members, like Shri Morarka (Congress), although sympathetic, were, however, critical in softer terms. According to Shri Morarka the reasons of ineffective functioning were two: (*a*) dearth of management talent, and (*b*) abundance of funds which made management treat public money with a certain amount of 'laxity'. Shri Aurobindo Ghoshal (Forward Bloc) made some valuable suggestions. He said that unless the administration was streamlined, wastage avoided, overhead expenditure reduced and costing system introduced, the consumer would not benefit. The Minister of Industry, Shri Manubhai Shah, said that the public undertakings were doing fairly well. As an evidence of this he put forward the following pleas: (*a*) that, for the Third Plan, the public sector was likely to yield Rs. 440 crores net surplus after providing for all encumbrances and depreciation, and (*b*) that the greatest contribution of the public sector was not its production or leadership or the social approach to avoid concentration of wealth but the great amount of training it had provided for young men.

There can be no disagreement with the above claim of the Minister that, by and large, public enterprises in India have done pretty well. But must this lull them into inactivity and make the managers rest on their oars? Efficiency is not a static concept. One must try to move from the existing state of efficiency to a better one. The points which Shri Ghoshal raised, therefore, deserve the deepest consideration. Not much thinking, however, has so far been done on this important issue in this country.[8] There are two aspects of the question—organisational and conceptual. In this article an attempt has been made to discuss some couceptual issues only. The treatment has therefore become somewhat abstract. Although a few references have, at relevant places, been made to some organisational aspects of the question, for lack of space, a fuller and systematic discussion of this topic does not find place here.

THE VARYING INTERPRETATIONS OF EFFICIENCY

"By their work, Ye shall know them" is an old but wise Biblical saying. It applies to public enterprises as well. There is no other way to judge their overall efficiency except by results. Efficiency, as Sir Frank Tribe put it, is an eminently 'pragmatic virtue'[9] and can be judge by no standard other than the objectives that motivate work. But here is the real rub. There is no or little agreement about what is to be judged. People with entirely different views about public enterprises sometimes

[8]*Measurement of Management in the Public Sector*, paper of the Indian Institute of Public Administration to the ECAFE Seminar on Management of Public Industrial Enterprises, New Delhi, December 1-11, 1959. This is the single systematic contribution available.

[9]Frank Tribe, "Efficiency in the Public Services", *Public Administration*, Vol. XXVII, Autumn, 1949, p. 160.

look for the realisation of objectives which are contradictory in nature. There are people who think that a public enterprise is a business enterprise and that is all. The protagonists of this view expect the enterprise to function strictly on business lines and reject the Webbsian idea of functioning in the open searchlight of public opinion. They hold that a public enterprise should "not be required to assimilate its conditions of work or rates of pay to those suitable for non-commercial activities". They advocate that employees of the enterprise should not be "provided amenities beyond the scale that would be provided by the best private employers" and as a justification urge further that "customers of State enterprises have given no mandate for employment conditions better than the best they themselves enjoy".[10]

An entirely opposite view can also be very legitimately taken. Socialists, for example, try to judge efficiency by the extent the enterprise comes up to their expectations in respect of wage leadership, workers' welfare, change in human nature and attitudes towards work.

The whole question of evolving the criteria of efficiency for the working of public enterprises is bedevilled by the mixture of the subjective and the objective. Among intellectuals, who try to analyse the concept impartially, the same difficulties come up under a seemingly very innocent-looking term 'public interest'. The whole trouble arises because the public are not only interested in economic and adequate product or service but such product or service which may be acceptable to them on their own terms. They demand more than efficiency. They ask for acceptability both in respect of content and methods. This complicates issues because it "involves imponderables of attitudes and responses that are not capable of objective statistical treatment—but which may in some circumstances be more important to the consumer than efficiency".[11] The difficulty is that, like so many terms having a very large and indeterminable connotation, the term 'efficiency' is so wide and porous that there is little interpretation that it can successfully resist. Some of the implications of this term in their qualitative aspects are so entwined with 'values' held in the society at any particular moment of time that any attempt to find a single set of formulae whereby all the dynamically transient and diverse ends envisaged by people could be harmonised would necessarily end in a wild goose chase.

THE ISSUE OF PUBLIC INTEREST

Value considerations enter the field through the term 'public interest'. It goes without saying that public bodies must serve public

[10]R.S. Edwards and H. Townsend, *Business Enterprise—Its Growth and Organisation*, London, Macmillan, 1958, p. 515.

[11]W.S. Steer, "Measuring the Public Services". *Public Administration*, Vol. XXX, Winter, 1952, p. 315.

interest. The difficulty, however, arises when a dissection of this elusive term is attempted. The meaning and content of this term varies from time to time. Even in a given moment of time, it is not always possible to provide a list of what is contained in the bag of this firm. Not unoften strange bed-fellows may co-exist. The principal difficulty arises due to the mix-up of non-commercial considerations with the commercial ones. Such a mix-up takes place when a justification is sought for the provision of differentials or special price advantages to particular groups of customers. The usual examples often cited are preferential rates recommended for electricity supply to rural areas, the opening of a new railway line in a new or sparsely populated region, the provision of postal and telegraph services at a loss, subsidisation of irrigation and manure. Many more examples could be given. To mention just one more. It is not unoften the case in under-developed countries that some imports are either totally prohibited or partially controlled on grounds of foreign exchange difficulties. Finding this to be an ideal situation for making high profits, let us say, some enterprising businessman asks for permission to instal a factory for producing it in the country. He may seek permission for foreign exchange for the import of machinery and raw materials and argue also that it would be in national interest because it would provide employment and add to the national income. But the government may consider all these considerations of less importance relatively to other better and, in the long run, more advantageous uses of the foreign exchange required by this man. In such a case the demand of the private manufacturer may very justifiably be rejected on grounds of public interest.

Public interest may appear in the guise of a more general economic phrase, *i.e.*, "serving the general economic objectives of the community". This may refer to such large questions as full employment, equitable distribution, price stabilisation, contra cyclical operations, overall balance in resource allocation, correction of sectoral and zonal imbalances in development, etc. The pursuit of many of these 'innocent' and otherwise 'desirable' aims may very often be in conflict with the immediate realisable gains expected of particular enterprise.[12] The issue may also arise from considerations of national defence, cultural pursuits and even temporary political questions. The subsidisation of atomic research, international airlines, help to broadcasting and socio-economic institutions are other familiar examples.

[12]"The performance record of the nationalised industries has been the subject of lively controversy, with government official, Parliamentarian, layman or economist attacking or defending it on the basis of concepts, often not clearly defined, of how enterprises should be run in the public interest. In practice the record is a highly complex one and defies simple description or evaluation." See W.C. Baum, *The French Economy and the State*, New Jersey, Princeton University Press, 1958, p. 223.

It will be seen from what has been said above in an illustrative manner that the question of the assessment of performance in the very general context of whether public enterprises are functioning in the national interest can, at best, be answered in overall terms.

DEVELOPMENT OF EVALUATION CRITERIA

For purposes of analysis it may be of advantage to separate the means from the ends. This may enable the evolution of two sets of criteria[13]—one regarding the methods of functioning and ends which are quantifiable and the other regarding ends which involve qualitative judgment. Such a self-imposed limitation on discussion is by no means an indication of any under-valuation of the question but only a reaffirmation of its importance and a frank admission of the inadequacies of quantitative appraisal. Sometimes, however, too much may be made of the term 'public interest'. It may be used as a cover for all 'sins'. The existence of 'public interest' does not mean 'less cost consciousness'. In fact, it should mean more of it. But not unoften one hears generalist administrators boasting of their lack of care for 'annas and pies' and even saying that they do not like to waste time over checking accounts. For them the least one can do is to recommend to government to place on the doors of public enterprises what Plato did in his Academy "Entry forbidden to any one who cannot appreciate the importance of the figures". There are many aspects of problems concerning public interest which are quantifiable.[14] Methods devised for this would, however, have to be different.

SOME METHODS OF EVALUATION

While giving his evidence before the Coal Industry Commission in 1919, Mr. Sidney Webb recommended the following for measuring the efficiency of public enterprises:[15] *(i)* Accurate measurement; *(ii)* complete publicity; and *(iii)* continuous comparison. In their famous work, 'The Constitution for a Socialist Commonwealth of Great Britain', Mr. and Mrs. Webb reiterated the same with some explanations. They recommended the "systematic organisation of comparative statistics of outputs or results in the various parts of the service, of detailed costing,

[13]This separation of subjects need not necessarily mean the establishment of different evaluation units. It should not also mean that Parliament in its capacity as the ultimate forum for passing judgment regarding the performance of public enterprises would become redundant.

[14]For example, the achievement of a high quality of production and service measured by national and international standards; reduction of costs, and increments in returns on capital, contribution to national income and fulfilment of Plan targets.

[15]Evidence of Mr. Webb quoted in A.H. Hanson, "Report on the Reports—The Nationalised Industries, 1950-51", *Public Administration*, Vol. XXX, Summer, 1952, p. 118.

of continuous test audits and of sample inspections". They also pleaded for "the organised study of other analogous administrations" and "original research into the subject matter with a view to new discoveries". It is half a century now that they wrote these words but it is very difficult to say if they have been given effect to even now in any country. Sir Frank Tribe, referring to the usefulness of comparative data, has suggested that they should be classified into four categories: (1) inter-period, (2) international, (3) inter-departmental, and (4) inter-regional or inter-office.[16] A lot can be said in favour of all these provided it may be possible to devise methods to give due weightage to facts which are supposed to be acting as causes. Let us take a few simple cases to explain this further.

Some people advocate comparison of the achievements of public enterprises with those of the private sector. If such an evaluation was done scientifically and with reference to the comparables, there could perhaps be little to object to. But since such a plea is usually associated with persons whose love for the public sector is not above doubt, it has not found many supporters. There are other reasons too why this device has received qualified reception. Firstly, common denominators for making such a comparison exist only for a limited field of activity. The difference in motives of operation accounts for this. Secondly, there are difficulties in making over-time comparisons. Significant differences in the objective situation sometimes take place between two time periods regarding such vital matters as cost-demand relationship and techniques used for production. Thirdly, difficulties in comparison may also arise due to differences in age, method of raising capital, additional cost on account of the payment of compensation, change in the ratio of fixed investment and so on.

Attempts at international comparisons are still more difficult.[17] A comparison of productivity indices sectionally and cross-sectionally in several time sequences may, perhaps, be of some real help. This may not, however, be easy because it involves the conversion of a large number of non-homogeneous data relating to inputs and outputs into homogeneous units through the complex process of weightages. In disentangling the causes from the effects and giving to each its exact due, the evaluator will come across many conceptual difficulties. The evaluator will have to reconcile the differences between market and social prices

[16] Sir Frank Tribe, *op. cit.*, p. 162.

[17] A comparison of performance of, say, a DTU Bus driver with his counterpart in London would be wrong. Apart from other variables one would have to take account of the nature of the capital equipment, the condition of the road and the behaviour of men and even stray animals. The British Parliamentary Committee's report on the operation of the BOAC contains satisfactory comparison. See *Report from the Select Committee on Nationalised Industries* (Reports and Accounts), HC Paper 213/1959, HMSO.

of the factors of production. This is concerned with only one time dimension. He may also have to assign monetary values to transactions covering different dates in the life cycle of the project so as to bring about homogenisation of values for purposes of comparison. To all this should also be added the difficulties involved in the examination both of the direct and the indirect effects flowing from the activity under evaluation.

It is also not unlikely that the focus of attention of the evaluator may, in this process, get such an exaggerated value that what is only a contributing factor may be regarded as the determining factor. For example, if the evaluator happened to be particularly interested, say, in labour productivity, he might compare two units of business enterprises with reference to this single factor only and pronounce the judgment that unit 'X' is better than 'Y' without taking into account differences regarding several other factors of no less importance like capital composition, skill of labourers, etc. It is obvious that conclusions derived thus will be only partially valid. One final point: Institutionalisation of appraisal requires standardised methods of judgment. In any act of evaluation, it is not only the institutions which will be judged but men also who run them. In this respect judgment will naturally be less quantifiable for it is difficult to find standard data about such an unstandard being as the human individual. Moreover since the benefits of the public sector are mostly infra-structural in nature, they will appear only in terms of social overheads. The usual performance tests will therefore not apply. Other tests like the national income test or contribution of the public sector to national savings, may have to be applied. Although such a line of thinking might prove to be of help, there is not enough literature available on the subject to go by.[18]

The catalogue of difficulties cited above was not meant to suggest that the subject is so hopeless that nothing need or can be done in this respect. So much depends upon the working of these viable and vital economic institutions that some way out must be found to explore as exactly as possible whether and how far they are working economically and effectively. It is quite obvious that such an exploration cannot satisfactorily be done by Parliamentary committees unaided by expert

[18]Prof. J. Tinbergen has done some pioneering work in this respect which is continuing in the Division of Balanced International Growth at the Netherlands Institute of Economics. A glimpse of this research may be found in Prof. Tinbergen's report to the International Bank for Reconstruction and Development, *The Design of Development*, 1958. In respect of savings as a criteria, reference may also be made to the work of H.L. Mazumdar, *Business Saving in India*, Groningen, J.B. Wolters' Publishing Co., 1959, pp. 225-227. See also "Efficiency under Nationalisation and its Measurement", by P. Sargant Florence and Gilbert Walker in W.A. Robson, ed., *Problems of Nationalised Industry*, London, George Allen & Unwin, 1952, Chapter XI, pp. 195-207.

advice.[19] It cannot also be done by an audit organisation which is innocent of the special needs and hurdles of the business world. In most cases investigations conducted by such a body would tend to be sporadic, *ex poste* and excessively juridical. While such investigations might succeed in making management pennywise and extra-conservative in taking any new course of action, it is doubtful if they will enlighten or enthuse it.

ORGANISATION OF EFFICIENCY AUDIT

It appears quite clear that such an audit will have to be done at two levels by two different agencies—one internal and the other external. The former may be called Internal Efficiency Unit and the latter Efficiency Audit Bureau. The reasons why the establishment of two units is being suggested are the following: (*a*) to provide a safeguard against duplication of work, and (*b*) to protect the operating unit from too many 'good ideas' and 'canned' programmes emanating from persons who take no responsibility for execution. It is not necessary that the two organisations must come into existence simultaneously. The establishment of the former may either precede or follow the inauguration of the latter. In fact, pending a comprehensive change in the budgeting and accounting procedures; reforms could be introduced in phases. This will mean slow progress. But it cannot be helped. Most countries and certainly under-developed ones do not have enough men with skills to do the job.[20] The quarrel on this point seems to be of the nature of 'the hen and the egg' controversy. What is important is that an improvement even in one phase may stimulate and call forth similar improvements elsewhere.

FUNCTIONS OF THE INTERNAL UNIT

The function of the internal unit would be to provide expert staff aid to management. The function of the external unit would be to

[19]Writing on this issue, Prof. Robson said: "A select committee of this kind could only be effective if they had at their disposal expert guidance similar to that provided by the Comptroller and Auditor-General (with the Exchequer and Audit Department) for the Select Committee on Public Accounts. This function might be performed by an audit commission such as I have suggested. The efficiency audit is thus not incompatible with the proposal for a select committee on public corporations An organ of this kind may even be a necessary corollary of the select committee idea. Nevertheless, we could have, an audit commission without a select committee of Parliament. It is possible however that the two devices in combination might produce the most effective results", *Problems of Nationalised Industry, op. cit.*, p. 322.

[20] The fact, although contested, was stressed by Prof. Hanson and Mr. Ronson during the ECAFE Seminar at Delhi. For a summary see *Report of the Seminar on Management of Public Industrial Enterprises in the ECAFE Region*, 1-11 December, 1959, pp. 4-5. Mr. Ronson has again made the same point in one of his recent articles. See George Ronson, "Accounting as an Aid to Management", *Productivity*, (Journal of the National Productivity Council), Vol. 1, No. 6, Aug-Sep. 1960, pp. 435-445.

evaluate it for purposes of reporting to Parliament. The former would conduct audit 'for' management as distinct from audit 'of' management which would be done by the Efficiency Audit Bureau. Some kind of working relationship will have to be established between them.[21]

If proper coordination could be established between the internal and the external audit, the latter would be strengthened and helped to appraise management functions better than is the case today[22], The very character of external audit would change from mere verification of the sample of functions taken at random to measuring the effectiveness of the management as a whole. If this happened, as it is hoped, Parliament and the Government might not find themselves constantly faced with the problem of taking maximum responsibility on minimum of information.

The execution of economic policy needs to be continuously aided by facts and figures critically examined both in the background of set aims and scientific principles of working so that the maximum could be procured from the means employed. Such a continuous study would be required for two purposes: (*a*) to provide knowledge to management for controlling its execution, and (*b*) to supply reliable information to the Efficiency Audit Bureau for evaluating performance and testing executive policy.

All planning starts with the appraisal of the given situation and execution moves from one situation to another. Both these require

[21]The internal unit would be organised as a staff agency under the budget and accounts department.

[22]Although some of the functions performed by the internal unit might be of the nature of pre-audit, it would be different from it in the sense that it would be a continuous audit. The function of pre-audit is necessarily negative in the sense that it seeks to check the occurrence of irregularities. Continuous audit, on the other hand, has a positive function to perform. Pre-audit generally refers to the system by which prior control over government expenditure is exercised by one or several agencies empowered for the purpose. It is distinct from post-audit which refers to checks of expenditure after they have already been made. Pre-audit sometimes leads to over-control through the requirement of obtaining counter-signature of a number of documents and vouchers by a number of persons in the hierarchy of the department making the payments. Most often this involves the examination of a variety of papers over and over again for ascertaining correctness and legality. It creates an "inevitable tendency for duplicating effort, excessive delay and inefficiency in the transaction of government fiscal efforts". Instances in support of the above contention are available from several countries of South America. The remedies sought by these countries have been worse than the disease. They have gone from 'over control' to a system which Prof. Harold Sidman rightly regards as a negation of it. Much of the confusion it seems has occurred due to wrong motivation and faulty organisation. Any such agency which acts merely in the negative sense will fail to achieve the essential function of acting as a unit whose main function it is to continuously report to management about performance as it takes place so that management could improve its operations in the light of knowledge thus gained. Also see *Government Accounting and Budget Execution*, UN, 1952.

collection and analysis of data not only in terms of the present but also of the past so that correct evaluation could be made. Such a kind of service to management is required because very often it is found that either policy has not been carried out as it was intended by the policy-makers or, at least, it has not worked out in the manner optimistically expected or, might be, some new development has suddenly intervened. There might be various reasons of divergence between policy and execution. There might be lack of coordination in the spread of knowledge about aims at the top and levels lower down or might be that overall aims were known to all but there was deficient understanding about important questions of details or there might be downright error in execution. More complicated reasons for this divergence might sometimes come from exogenous sources. Optimistic forecasts might have been built on superficially known facts or unforeseeable autonomous forces might have intervened.

Internal efficiency unit, if established, should be able to locate the places of divergence, find the reasons thereof, and provide guidance and knowledge to management to take care of these aspects of the question and serve as guides to management for purposes of effecting continuous correction and achieving a state of efficient functioning acceptable to all concerned. Its two broad functions would be attention-diverting and problem-solving. Since many of the tests and controls which will be vital for the internal efficiency unit may be of vital interest to management also, a system of mutual consultation and co-operation must be established from the very start. It will be well to realise that better performance, lower costs, reduction in wages, etc., neither trickle from the top nor well up from the bottom. All these take place on the basis of a two-way traffic. For such a mutual understanding to thrive, it is important that each party should keep strictly to its tract.

The internal efficiency unit will have only staff functions. It should be content with just 'holding the mirror' to the management. It is for management to take the lessons or not. Its main function would be to supply timely information to management about operations in progress. The quickness with which this unit can transmit reliable—not necessarily perfect data to management about the nature and place where deviations are taking place or are going to take place would measure its efficiency and provide clues about the adaptability of the organisational structure devised for performing the task. Similarly the extent and manner in which management responds to it and takes appropriate action in time would measure its efficiency.

For this unit to function effectively a number of changes will have to be brought about in the accounting, budgeting and reporting systems of individual enterprises. Much will depend upon these changes.

Utmost care, therefore, must be taken before introducing them. It may even be wise to go by steps or else it is quite possible to be so conditioned in mind as to confuse the means with the ends. The creation of a built-in control system may turn out to be a big deterrent and initiative may be stifled. It would be a bad day for all concerned, if management ceased to take calculated risks. Rigidity acquired thus may turn out to be worse than that which already exists. The rationale of all institutional changes in the accounting and budgeting practices would ultimately lie in the capacity of these changes to record the present events as correctly as possible and to indicate the future as reliably as possible so that something could be done about them in time. The aim would not be to attain perfection but to achieve results better than in the past.

Many of the defects of the present system of accounting in public enterprises stem directly from the fact that it is more repetitive than reportive. If, instead of this, centrewise reports regarding receipts, expenditures and obligations relating to the performance of specific activities were submitted periodically to the relevant supervisory levels of the organisation, both comparative and indicative data would be available to management so that it could take such corrective steps in time as it deemed necessary. Timely action is very important in all activities but in business enterprises a special significance is attached because here it is the degree of success achieved in handling the problems of change which largely accounts for the difference between success and failure.[23] At the moment, for lack of, adequate timely information, management's attention is not drawn towards reductions on items which call for them but it escapes them because of their lying undetected at isolated places. Savings on their account might not be insignificant or less important. In fact such savings might be better than the spasms of cost-reducing activity which sometimes follows occasional efficiency drives organised by management. Hectic and sporadic cost reduction might, in fact, harm the organisation and leave scars behind. Permanent benefits ensue only from smooth action. A mere increase in the supervision of work, for example, may spell a difference in performance in quarters unsuspected of yielding such a result.

Since the purpose behind the proposed system would be to inform, it would reflect management needs. Each centre of performance would have its own operational account indicating: (*a*) appropriations and apportionments available to it, (*b*) encumberances and disbursements charged against (*a*) above, (*c*) revenues and expenses embracing assets and liabilities relating to programmes, and (*d*) property accounts integrated with fiscal ones on the basis of up-to-date prices. The cash basis of

[23]In a static situation also such information would be useful.

account is incapable of doing all this even if the books be kept open till after the close of the financial year. Some sort of the account would have to be adopted. This would enable records regarding revenues and expenditures being kept in actual terms. In this system inventories would not be recorded as cost so long as they were not actually used. The advantage of this system would be that it would provide management with data regarding unit costs. Many more suggestions could be made.[24]

THE ROLE OF BUDGET

Before leaving this topic of internal audit, it is essential to say something about budgetary reforms as well because budgeting and accounting are twin set tools in the hands of management—one *a priori* and the other *a posteriori*. The former expresses the costs to be incurred and activities to be executed and the latter the expected course of costs and activity step by step, section by section, time by time, throughout the projected period of the plan of activity of the business concerned.[25] Alteration in demand conditions and price levels, etc., call for a continuous reshaping of business budgets. They have, therefore, to be relatively more flexible than government budgets.[26] It cannot be said that the existing devices for bringing about flexibility are good for modern government, but they are certainly not adequate for business enterprises. For them long-term, short-term and current budgets require to be framed. The long-term, budget may run over a period of, say, 10 years or over. The short-term budgets may be divided into two parts, one covering the plan period of five years or so and the other the financial year. The current budget should preferably correspond to the cycle of produc-

[24]The difference between the objective standards set for sacrifices and the quantity of materials actually used up would yield data regarding costs in physical terms while the difference in price between the time of acquisition and final sacrifice would give information regarding costs in financial terms. Such a system of accounting would help management to make realistic allocations towards replacements also.

[25]Abram Mey, *Rapport de l' Institut neerlandais des Sciences Administratives*, Istanbul, International Institute of Administrative Sciences, 1953.

[26]The usual techniques for bringing about budget flexibility in Government generally are the following, (*a*) To make lump sum appropriations rather than itemised appropriation thus giving authority, freedom to manipulat funds according to needs. (*b*) To makes itemised appropriations in most cases but leave a sizable amount in the category of lump sum grant from which reallocations are made on the discretion of the authorities concerned. (*c*) To create a revolving fund which does not lapse with the close of the financial year but is carried forward automatically. (*d*) To create a contingency or emergency fund out of which unforeseen expenditures might be met. (*e*) To authorise departments on the sanction of the Ministry of Finance to transfer payment from one appropriation account to the other. This it may be noted is subject to abuses. For details see *Manual on Economic Development Projects*, UN, 1958; also *Government Accounting and Budget Execution*, UN, 1952.

tion. It should be broken up into different task components representing the various centres of performance within the organisation. Near and at the floor level the budgets should be prepared in physical terms but higher up it should be both in physical and current price terms. The authorisation budget expressed in financial terms is concerned with the legality of expenditure and the competence of the executives making it. The current budget formed on the basis of tasks would be concerned more with the quantity and quality of sacrifices unavoidably required in the techno-economic sense in a unit of time and for a unit of product. This budget will be primarily concerned with the efficient use of resources. This will, therefore, be essentially a cost budget.

The operation of these two types of budgets simultaneously within the enterprise would: (*a*) open the possibility for comparing differences in real sacrifices between two time periods in terms of physical outlays, and (*b*) provide basis for comparing differences between expected and actual costs both in time and overtime. A proper integration of such a budget with the kind of accounting system as has been outlined above would enable management to study the nature, extent and causes of variations with reference to standards of targets initially set. This will make budget forecasts normative for purposes of execution. Execution itself, in its own turn, would become normative for verifying budget forecasts. A two-way control system would thus come into existence in the aid of management. Most normal irregularities and inefficiencies would thus be sandwiched between the two blades of the scissors of budgeting and cost accounting and differences between the forecasted and actual data would provide indication of changes in conditions and circumstances, which, in their own turn, might once again, be subjected to further factual study and investigation. It is thus that efficiency, if defined as the most effective application of skill and effort to the acquisition, conversion, and distribution of goods and services at the technically and economically unavoidable minimal cost, can be controlled and realised.

It may be said that the system outlined above would be too complicated to be useful. Although such a criticism would be wrong, it must be conceded that it would not be very easy to adopt it all at once. The first thing is that there should be a planned programme in existence so clearly defined in its objectives and targets and so agreed upon by the staff concerned that there is no confusion about it either on paper or in mind. The second important thing is to introduce a system of delegated responsibility in spheres where needed. Persons in charge of the centres of performance would be the obvious choices for this. Responsibility and authority must go together. The formulation of the budget on the pattern outlined above will be the third step. Reforms in the accounting system may follow it. Obviously these tools of management would be crude in their beginning but constant use will make them refined and

economic. Once management begins to have on its table comparison of performance with reference to targets by months, quarters and years in order to be able to judge the historical pattern of progress of the business it will itself be interested in fostering and developing such internal reporting mechanism.

It is not suggested that the techniques indicated above exhaust the field. Better techniques would evolve through practice and experience. What is important is to realise that efficiency, like liberty, is a matter of eternal vigilance and there must be some body inside the organisation constantly toremind those working in it about its need.

DANGERS OF EXCLUSIVE RELIANCE ON COST-BENEFIT RATIO

It would not improve matters if efficiency check-up was concentrated exclusively or even disproportionately on cost-benefit ratios in terms of existing market values and the entire area of long-term socio-economic benefits arising out of functioning was left to be evaluated wholly on intuitive basis by the press, the public and Parliament. The cost-benefit ratio calculated in terms of the present market value has its uses in the current period for purposes of control but that is all. These ratios cannot become the standards of evaluation for long-term purposes because management excellence consists precisely in seeking to disturb and change these ratios. That which is sought to be changed cannot become the standard. It is standard only in the sense that the prospective ratio should not be worse than the present one. Proper efficiency audit cannot take place if tools are not evolved which give not only cost-benefit ratios of performance but also simultaneously indicate achievements in respect of the minimisation of social costs, augmentation of capital resources, provision of additional income and so on. As money cost ratios at current prices are of only limited value, opportunity cost ratio may not also be of much help in many cases. In some cases, as in the case of surplus labour, the opportunity cost in under-developed countries is zero. Moreover, how can one arrive at any opportunity cost ratio of current sacrifices of available scarce resources in, say, expenditures incurred on multipurpose river valley projects? Could any one say with any definiteness if money spent on the Kosi project wouid have afforded better opportunity cost ratio if all of it were, instead, spent on the extension, say, of educational and research facilities. The real question is what the Kosi project actually does and promises to do for the expansion of productive facilities over a number of years in the general context of the economy as a whole.

The above discussion shows the possible dangers in organising a separate audit department for efficiency check-up as a narrowly conceived agency based merely on input-output and cost-control theories of accountants. Cost accounting done on this basis will show only

one side of the ledger of performance, *i.e.*, the efficiency of short-term performance in terms of the limited cost-benefit ratio. Therefore, while it is important that such a system should be there because it would provide an efficient tool for diverting management attention to existing deficiencies and mistakes, it should be realised that it is not enough because its capacity as a problem-solving instrument in respect of wider and long-term issues is limited. Efficiency is a dynamic concept. It would be wrong to regard existing efficiency as the best that could be had. It is in the interest of management to go on increasing efficiency. In private enterprise profit measures it in a rough way. But in public enterprises this test may or may not be there. Even if it be there, the problem is not solved because the concept of public interest is attached to its function in a rather peculiar way. Private enterprise may also (and often does) take care of public interest. Some of the progressive ones do come up well in this respect. But the consideration of this issue is "not the first item on its agenda". It is not being suggested that the time-old utility industry no-profit-no-loss Fabian thesis, which is sometimes sought to be built into nationalisation legislations through requirements regarding break even test, is always correct. In fact, it may not be conducive to the efficient use of resources. The decision in this respect should not ignore existing capital equipment, the general market situation, and the overall economic policy of the government. It may sometimes be good to work on profits and at other times even on losses. Moreover, a mere improvement over last year's performance may not necessarily be an indication of the correctness of price-output decisions. "Past profits", it has been well said, "invite confidence in the future, but they do not command it." "Past losses", similarly "test confidence in the future but they do not necessarily shake it".[27]

THE NEED FOR EXTERNAL AUDIT UNIT

The cost accounting method of judgment needs to be supplemented by evaluation not only in terms of the existing plans but also in relation to various other indices, *e.g.*, those of long-term plans such as those drawn by the Perspective Planning Division of the Planning Commission in India or else such an audit cannot easily escape being limited by the rigidities of evaluation done in narrow terms and ratios based on the ruling market value. To be really valuable it would be useful to take into consideration the relationship of performance not only in terms of the past and the present but also the projected future. It is thus that a full view of performance could be had. The enlargement of the scope of work will require evaluation to be done in its various cost and time

[27]Geoffrey Vickers, "The Accountability of a Nationalised Industry", *Public Administration*, Vol. XXX, Spring 1952, pp. 71-80. Profits may accrue on account of conjectural circumstances management may have nothing to do with.

relationships. Obviously this function cannot be performed by the internal audit unit. This will have to be done by the external unit.

There should be a separate independent statutory body called the Efficiency Audit Bureau[28] under an Auditor General.[29] The independent statutory existence of this body would enable the advantages of the existing organisation of the Comptroller and Auditor General to be kept in tact. Its functions would be: (*a*) to check accounts as per the authorisation budget in financial terms; (*b*) to check accounts in physical-cum-financial terms as per accounts maintained and checked by the internal audit unit; and (*c*) to make an overall assessment of performance keeping in view long-term trends and general national needs. The first task would not be different from the one that is now being performed under the existing arrangements. The performance of the second task would be considerably helped if the internal audit unit already existed and business account was being maintained on the basis of a commonly agreed form. If, however, the external unit preceded the formation of the internal unit, forms of accounts for this purpose would have to be issued by it to the operating units so that they could organise their internal accounting cells accordingly. The purpose of accountability to Parliament in regard to what is happening to the money of the tax-payer would be served best in this manner because accounts audited in this way would certify not only the legality of expenditure but also its economic justifiability. Moreover such an auditing at two levels would create a correct type of cost consciousness. Management need no more be fearful of being judged by uninformed persons with the help of wrong tools and criteria.

Thus, while the advantages of the existing type of auditing would not be lost, a more realistic auditing would come into being. The question may be asked here whether the new body would not interfere with the autonomy of management. This is a question concerned with the kind of relationship that might exist between the external and the internal units. The fear may be genuine and also exaggerated. The dilemma is real and the only escape is through the establishment of cordial and cooperative relationships based on common motivation. Frictions there might be but they should be accepted as inescapable and in certain circumstances not entirely undesirable. Autonomy, after all, is not a principle or an end in itself. It is a means to an end. The real point is not interference with autonomy but irrational interference

[28]The term was first used in *Public Enterprise*, ed. Prof. W.A. Robson, Allen & Unwin, 1937, p. 380. See also *Problems of Nationalised Industry*, *op. cit.*, pp. 321-22, and *Nationalised Industries and Public Ownership*, *op. cit.*, pp. 195-207.

[29]The 'Efficiency' Auditor General might sit on the Parliamentary Committee and advise it in the same manner as the present Comptroller and Auditor General does in the case of the Public Accounts Committee.

with it. The safeguard to initiative in respect of certain matters with management is essential and it will be in the interest of the external unit itself to guarantee it. Much would depend on the staffing of this unit. If the staff were drawn from the field of business there might not be much danger of non-business like interference. It is said that experts disagree too much. It might be true in some cases. But it is also true that when they agree, they agree too well. It may be also said that enough men with requisite experience and training may not be available. But this is no argument for not beginning with the experiment even on a pilot scale.[30]

The third most important function of this Bureau would be to take an overall long-term national view of performance. If this Bureau maintained a constant vigil on the enterprises through a systematic and continuous study of their accounts and problems in a comparative manner keeping in view their future in relationship to the economic needs of the nation, there is no reason why, in due course of time, it might not evolve correct methods and criteria for evaluation and indices which might give a correct or near correct view or the achievements of public enterprises to Parliament and to the public at large. □

[30]The Commercial Wing of the Comptroller and Auditor-General's Office might, very well, in due course, take up the job.

Audit and Accountability of Public Enterprises in India and Britain*

R.S. Arora

DURING RECENT years, students of comparative problems of the public sector may have observed two distinct developments which appear, at first sight, more or less inconsistent, nay, even contradictory. These are: (*a*) a rapid expansion of public ownership of strategic means of production and distribution as a worldwide phenomon;[1] and (*b*) a large scale awareness, even serious concern, about some of the complex problems exposed by the expansion of the public sector. The nature and significance of problems may, in fact they do, vary from enterprise to enterprise and from state to state. They, however, include those of: planning and implementation, administration and organisation, pricing and investment, industrial and public relations, legal and constitutional status, autonomy and accountability of public undertakings, etc.

The first point stated above, being not directly relevant to the present study, can be disposed of relatively quickly. Evidently, during recent years, even governments not formally committed to the attainment of an egalitarian society have been pursuing—often willingly, and sometimes under the compulsion of circumstances—policies of acquiring 'ownership' or just 'management' of economic enterprises which were considered earlier to be beyond the province of normal State functions.

*From *Indian Journal of Public Administration*, Vol. XIX, No. 2, 1973, pp. 115-37.

[1]*See* Stephen Holt, *Six European States*, London, Hamish Hamilton, 1970; Jim Hoagland, "Nationalization—African Fact of Life", *International Herald Tribune*, January 2-3. 1971; "Algeria Oil Production Two-thirds Paralysed", *Le Monde Weekly*, June 3-9, 1971; "Kenya Taking Half of Two Private Banks", *International Herald Tribune*, June 2, 1971; Charles Vanecke, "Chile—Slow Road to Socialism", *Le Monde Weekly*, June 24-30, 1971; Marcel Niederogang, "Venezuelan Oil; Nationalization by 1971", *Le Monde Weekly*, July 8-14, 1971. Also see R.S. Arora, "Petroleum Nationalization in Middle-East", *Lok Udyog*, June, 1972 ; "Expansion of the Public Sector in Latin America", *Lok Udyog*, November, 1972; and "Public Sector in Sri Lanka", *Lok Udyog*, December, 1972.

So much so that in some of the erstwhile *laissez faire* societies the State ownership of vital economic enterprises has rapidly acquired dimensions where it now plays significant, if not decisive, role in the economic performance of those nations. For instance, today the British Coal Board, which runs the nationalised coal industry, has the biggest payroll in Western Europe and the British Ministry of Power, which is responsible for the nationalised coal, gas, electricity and steel industries, can be described as being the largest holding company in the world. Yet, until only a few decades ago Britain claimed to be the champion, *par excellence*, of free market-economy.[2]

Similar trends can be found in most of the West European countries as well as across the Atlantic in Canada and even in the United States from where the most Popular folklore of free enterprise have originated in the twentieth century.

During more recent years, governments of most of the developing countries have been taking daring steps of expanding the public sector, particularly by the acquisition of private industries, indigenous as well as foreign, in order to meet the aspirations of their people. For instance, several Asian, African and Latin American countries, including Ceylon, Iraq, Syria, Libya, Algeria, Iran, Peru, Bolivia, Venezuela and Chile, have taken decisive steps to nationalise, completely or largely, foreign petroleum interests operating in their countries which until recently significantly controlled their economies. Like international petroleum cartels, many other industrial and commercial titans of national and international origin have been nationalised in the developing world.

While it has become almost counter-productive to stress any longer the virtues of the free enterprise in pursuit of a case against the expansion of the public sector the emphasis on problems associated with the efficient conduct of the public sector is not misplaced. True, serious students of this subject have always felt that the public ownership of vital enterprises would indubitably resolve some age-old conflicts and would create situations which would be irreversible by nature but not without creating new problems. However, of all the issues, bulk of literature on public ownership continues to deal with various aspects of the accountability of nationalised industries. For obvious reasons, the concern about the performance and accountability of the state sector has been both genuine as well as 'motivated' or partly genuine and partly motivated; often it has been difficult to distinguish one from the other. The aim of this article is, in fact, very limited; it is to discuss some of the aspects of the role of audit as a tool of accountability in order to ascertain the conduct of the public sector in Britain and India.

Here, it needs to be stressed that there has been a tendency to

[2]R.S. Arora, "Growth of Public Sector in Britain", *Lok Udyog*, September, 1971.

over-estimate the significance of audit and it has often been ignored that audit is only one of the several means of ensuring accountability and that even the most scientific techniques of auditing would operate within certain constraints and would, thus, produce limited results. Our aim, therefore, should be to evolve auditing techniques which can produce optimum results within recognised parameters set by the constraints, and the results produced by audits should supplement and should neither compete nor conflict with those achieved through other means of accountability. Other means of accountability include: parliamentary devices, such as the question hour, debates, and enquiries by parliamentary committees; ministerial devices of informal consultations and formal directions to the boards; and studies conducted by governmental institutions, like the 'Prices and Income Board' in Britain, and the 'Bureau of Public Enterprises' in India. Again, in Britain, there are consumers' councils to protect the interests of consumers of nationalised industries.

All these devices of accountability are concerned with the efficient conduct of the public sector while the concept of 'efficiency' itself continues to elude any precise definition. Yet an inefficient unit can be identified like a sick child in a healthy class. In view of this, we shall first examine the role of audit in the accountability of the public sector in Britain.

II

In Britain, with one or two exceptions, statutes creating public corporations do not empower the Comptroller and Auditor General (CAG) to undertake auditing of accounts of nationalised industries.[3] Prior to 1953, the CAG had been assisting the Public Accounts Committee in its deliberations. But he never reported separately upon nationalised industries. Various statutes dealing with nationalised industries assumed that firms of professional accountants be appointed to audit the accounts of nationalised industries and this remained, invariably, the practice. While giving an evidence before the Clitheroe Committee on Nationalised Industries, the late Sir Frank Tribe, Comptroller and Auditor General, categorically said that his department could, if required, undertake the task, only after a substantial addition was made to his staff.[4] Even then he would not be able to report on their efficiency. Evidently, he was reluctant to extend his jurisdiction to the public sector. He suggested that professional auditors might be able, if required to do so, to provide Parliament with the kind of information which he usually gave to the Public Accounts Committee.

[3]For extensive bibliography, see A.H. Hanson, *Nationalization—A Book of Readings*, London, Allen & Unwin, 1963.

[4]*Parliamentary Papers* (U.K.) 1959, No. 276, p. 11, Q. 71.

On the other hand, the Institute of Chartered Accountants was also opposed to the above mentioned idea. Therefore, no action was taken on the Auditor General's suggestion.

However, a careful scrutiny of the present auditing practice in Britain indicates that certificates given by professional auditors with regard to the accounts of the nationalised industries resemble the unilluminating formula which applied to joint stock companies in the private sector. This arrangement has been widely considered as inadequate and, with the expansion of the public sector in Britain, the concern about the inadequacy has also grown. For instance, commenting on the prevailing situation, E.L. Normanton says that the British public corporations are unique in escaping any kind of constitutional control through audit. He regards this as a serious limitation on their accountability. "The submission of annual reports and professionally audited accounts", he believes, "does not amount to accountability."[5] Supporting the views of Normanton, Professor Robson observes that "a question of great importance which has so far escaped serious attention is the audit of the accounts of the public corporations". Robson believes that the professional audit used for the nationalised industries in Britain does not serve any important purpose except that it ensures financial regularity and honesty in the administration of accounts. Moreover, the relationship between a professioal auditor and the company, which is his client and pays his fees, is entirely inappropriate for a public corporation.[6]

Such reservations about the existing auditing system were further reinforced when Parliamentary Select Committee on nationalised industries discovered that its own performance was not as impressive as expected by its advocates. After a few years of experience with the committee serious doubts had begun to appear about its effectiveness for the purpose it was set up. The question often raised was: Could the device of a Parliamentary Committee on Nationalised Industries determine the performance of industries concerned? It was often felt that it was not safe to reply either in the affirmative or negative. If by public accountability it was meant that the Members of Parliament be simply informed about the activities of the nationalised industries, then it was perfectly correct to say that Committee did an effective job. It did produce a mass of information. As a matter of fact, to collect general information was not the ultimate object of the Committee. The real aim of collecting information was to see that the public enterprises were functioning

[5]E.L. Normanton, *The Accountability and Audit of Governments: A Comparative Study*, Manchester, Manchester University Press, 1966, p. 311.

[6]W.A. Robson, *Nationalised Industry and Public Ownership*, London, Allen & Unwin, 1960, pp. 202-210.

efficiently and, if not, to take proper action to set the wrongs right.[7] For instance, the proceedings of the Select Committee revealed, time and again, that ministerial influence operated on the Boards. Such exposures did create some new problems. It was interesting to watch the reaction of those whose hidden activities were exposed. Now-a-days, inefficient Ministers are not generally sacked provided they remain loyal to the party oligarchy. Although Select Committee's reports were sometimes extensively discussed in Parliament, but the Committee did not succeed in deflecting the government from any policy on which it was firmly set. Even on technical issues, the Minister concerned could find a way to ignore a Select Committee's proposal on the grounds that his *ad hoc* departmental committee had just given contrary advice. A Select Committee was not empowered to restrict a Minister's freedom to choose his own advisers or his own advisee. Nor could it hear evidence or see papers and records which the Minister decided to withhold.

On its own part, the Select Committee felt handicapped in measuring the performance of technical functions of nationalised industries. For instance, while examining the reports and accounts of the British European Airways, and the British Overseas Airways Corporation, the Committee had 60 pages of narration and 80 pages of accounts to deal with. There were also more than 60 memoranda, with reports and accounts of at least seven foreign airline companies. Finding of accountancy advice to assist it in its examination of such complex reports and accounts was the Committee's dilemma.

This situation compelled the Committee to examine the problem in a formal manner which resulted in a 'Special Report' in July 1959. In this Report. the Committee examined various possible types of assistance. The interesting point was that the Committee rejected the proposal for assistance by an officer of the status of the comptroller. The Committee thought that such an assistance would most probably lead, or would appear to be leading, towards a 'Grand Inquisition' into the nationalised industries by officials acting on behalf of Parliament. The Committee also considered the idea of hiring the services of an accountant, experienced in industrial and commercial accounts, or to employ an economist to advise the Committee on the technical aspects of evaluating performance of public expenditures. The Committee, finally, decided that it should neither rely on Treasury officials seconded for the purpose nor on outside professional experts engaged in private practice. The Committee found no adequate plan to recommend to Parliament. However, the quest to determine the efficiency of

[7] R.S. Arora, "Parliamentary Scrutiny: The Select Committee Device", *Public Law*, Spring 1967, pp. 30-41.

nationalised industries continued to be felt widely[8].

In response to this quest, the British Government issued in 1961 a *White Paper on the Financial and Economic Obligations of the Nationalised Industries.*[9] According to the *White Paper*, the Government's general policy was to ensure that the industries were organised and administered efficiently and economically. These undertakings were expected to 'pay their way', *i.e.*, on an average of good and bad years, to have not less than sufficient revenues to meet proper charges, including a provision for reserves. It was also felt that financial results alone did not fully measure efficiency. A simple comparison with the return on capital in private industry was thought to be misleading. However, taking several considerations into account, the government laid down financial guidelines for nationalised industries. While doing so, the *White Paper* conceded that earning power, total depreciation provision, and reserve requirements will vary according to the prospective commercial, technological and financial developments of different undertakings. The Document concluded: "The nationalised industries are from their size and nature bound to play a major role in the economic life of the country. They cannot, however, be regarded only as very large commercial concerns which may be judged mainly on their commercial results; all have, although in varying degrees, wider obligations than commercial concerns in the private sector. The object of these proposals is to find for each industry or board a reasonable balance between these two concepts." It was hoped that the new arrangements will improve performance and morale and reduce the need for outside interference.

Within a few years, the implementation of the recommendations of the *White Paper* exposed their limitations. Once again several aspects of measurement of performance of nationalised industries were extensively discussed by the Select Committee on Nationalised industries in 1967-68. While critically assessing the recommendations of the *White Paper* of 1961, Sir Thomes Padmore, a member of the Select Committee, said:

> What I do not quite understand is the principle of the thing. May I put it to you this way. The *White Paper* laid it down that one measures in broad terms the performance of a nationalised industry by requiring it to produce a certain return on the capital invested... We do not. . . measure and control the performance of the industries which are in surplus in terms of a global figure of surplus. We do it under the terms of the *White Paper* by way of fixing an objective measured as a percentage return on capital and a lot of techniques

[8] *Special Report from the Select Committee on Nationalised Industries*, H.C. 276, July 28, 1959.

[9] *Cmnd.* 1337

> flow from that. Why should that not equally apply to an industry in deficit?[10]

Commenting on the same subject, another member of the Committee, Mr. D.L. Munby, said:

> No adequate economic justification has ever been produced for the Treasury financial targets expressed as a rate of return on net assets. There is a fundamental difficulty in the valuation of net assets insofar as these relate to pieces of capital equipment installed many years ago, and in many cases of a kind which would not be installed today...It is not disputed that most nationalised industries should normally earn some kind of surplus over their costs, but this surplus should follow as a result of a right pricing policy with some margin for contingencies and should not be decided by arbitrary criterion.
>
> It may be argued that the purpose of the target is to ensure a given rate of self-finance so as to avoid pressures on the Treasury. There is, however, no economic criterion by which such self-finance targets could be assessed and this policy means in practice that the prices of nationalised industries are rigged to meet the financing requirements of the Treasury. In some cases this may do little damage, in others it may do considerable damage.[11]

According to Professor J.R. Sargent, the *White Paper* suffered from several limitations. He conceded that one important ground on which it could be argued that financial objectives were necessary was that managerial efficiency and morales throughout the industry depended upon them. From the managerial-morale point of view it did not matter much exactly what the objective was. To be credible as an objective, and therefore capable of influencing performance in the industry, it must be neither too easy nor too difficult. At the same time, he stressed that the effectiveness of the objectives for an industry as a stimulant to managerial efficiency and morale depended not merely on the fact that it existed, but on what was done if it was not reached. It was far from clear from the *White Paper* what the sanctions actually were. While exposing the inadequacies of financial objectives, Professor Sargent particularly observed:

> The setting of an overall financial objective for an industry, such

[10]*First Report from the Select Committee on Nationalised Industries*, Session 1967-68, Vol. II, p. 396, para 1432.

[11]D.L. Munby, "Prices, Investment and Financial Objectives", *First Report from the Select Committee on Nationalised Industries*, Session 1967-78, Volume II, p. 591.

> as the achievement of a certain percentage return on capital, is unlikely to be capable of ensuring that the costs which are identifiable with the performance of each of the many different services which it provides are reflected in the charges which are made for each of these.[12]

Professor J. Wiseman concurred with Professor Sargent and commented that an objective to achieve a particular rate of return was either an objective to be treated seriously or was not an objective at all. Unless we knew what happened when it was not achieved, it became difficult to assess its worth.[13]

At this stage, it is possible to summarise the deficiencies of the strategy of the 1961—*White Paper*. *Firstly,* industries, especially those with considerable unexploited monopoly power, could too easily achieve their objectives simply by raising their prices, without regard to possible economies in costs as the best use of resources. *Secondly,* the single objective might be achieved while continuing a large measure of cross-subsidisation; pricing policies which under or over-price the goods or services of the industries as a whole. *Thirdly,* the overall objective gave no guidance on the desirability of price differentials to reflect the differences in costs in meeting demand in the short run where spare capacity exists and where it does not exist. *Finally,* the financial objectives also gave inadequate guidance on investment policies.

True, the 1961—*White Paper* made a valuable start towards establishing an acceptable economic framework for the guidance of Boards on what was expected of them, and though it contained some helpful clarification about ministerial control in regard to prices and social obligations, it was in some respect a false start. The strategy of financial objectives was like that of the statutes of nationalised industries. It dealt with only the desired end-result, and left the industries largely free to decide how to achieve those ends. It provoked several questions, such as: Could the economic objectives or giant industrial organisations really be summed up by a single target rate of return on their investment? Was not the calculation of financial objectives much more difficult than the *White Paper* assumed? In fact, the *White Paper* did not fully succeed in establishing an economically sound basis for the measurement of efficiency of the nationalised industries.

In 1967, the British government thoroughly revised its strategy to determine the performance of nationalised industries. The revised stra-

[12] *First Report from the Select Committee on Nationalised Industries, op. cit.*, p. 597.

[13] *Ibid.*, p. 607.

tegy was laid down in a *White Paper*.[14] The new *White Paper* removed the financial objective from the centre of the picture, and replaced it with pricing policies and investment criteria. The new strategy clearly separated, for the first time, the economic and financial aspects of the industries' obligations. This time, financial results were regarded as an expression of economic policies, and not an end in themselves. The strategy was sub-divided into four parts: investment appraisal, pricing policy, costs, and financial objectives.

The new approach marked an advance in two ways. First of all, it made clear that the starting point on the road to finding a suitable pricing policy was marginal costing in the sense that a real effort should be made to work out properly and consider the long and short run marginal costs as they were appropriate and before other things were taken into account. *Secondly*, it emphasised the importance of looking at each broad service and product individually to devise a suitable pricing policy for each without running them too closely together. The 1967-*White Paper* sought to emphasise that where social obligations were important and needed to be brought into the calculation and the final decision, it was important that the proper investment and price studies be made nonetheless and that the importation of a social argument should not be used as a means of reducing the effectiveness and importance of the genuine investment.

III

According to many experts, the best way to determine the efficiency of a nationalised industry is to introduce performance auditing by a specialised institution. In a memorandum, submitted to the Select Committee on Nationalised Industries in July 1967, Professor W.A. Robson made a strong case for efficiency audit of nationalised industries. Robson has been advocating for many years the establishment of an Efficiency Audit Commission. The proposal was first put forward by him in 1937 in his book: *Public Enterprise*[15]. It was further elaborated in his subsequent studies. His proposal assumed that the proposed audit commission would concern itself only with the efficiency of a nationalised industry operating within the framework of policy already laid down in the statutes, regulations and directions. It would not normally raise questions involving a change of fundamental policy, such as a different form of organisation for the coal industry or the introduction of a subsidy for transport. Robson believed that the functions of the proposed Commission shall not overlap with those of other *ad hoc*

[14]*The Nationalised Industries: A Review of Economic and Financial Objectives*, Cmnd. 3437, 1967.

[15]W.A. Robson (ed.), *Public Enterprise: Developments in Social Ownership and Control in Great Britain*, London, George Allen & Unwin, 1937, pp. 379-81.

committees. The Audit Commission would inquire into such matters as the character, quantity, and quality of goods or services provided; price policy; efficiency of administration; personnel questions, including pay, recruitment, and methods of promotion; relations between the board and the consumer; capital expenditure, and the methods of financing it, and so forth. This will help in building up a skilled staff possessing an unrivalled insight into the problems of nationalised industry and unequalled ability to compare the methods adopted by the several boards for coping with them. Professor Robson further stressed that the work of the Select Committee on Nationalised Industries could be immeasurably strengthened if they were supplied with the reports of an Efficiency Audit Commission or the advice of a highly qualified staff.[16]

Prof. Robson's proposal has been strongly supported by E.L. Normanton and W. Thornhill. According to Normanton, British public enterprises have been unique in escaping any kind of constitutional control through audit. He asserted: "The submission of annual reports and professionally audited accounts does not amount to accountability... It is of the very essence of accountability that the persons or bodies held accountable should not be able to dictate which aspects of their business will be examined; the initiative must be held by those to whom they are accountable." In view of this, Normanton emphasised that a competent efficiency audit could make a really important contribution to parliamentary, public, ministerial and even managerial understanding of the nationalised industries.

This approach was further supported by Thornhill in his memorandum submitted to the above mentioned Select Committee. According to Thornhill, public enterprises in Britain suffered too much Ministerial influence and not enough public accountability. And within the existing framework of the Select Committee on Nationalized Industries, it was not possible to measure the performance of the public corporations. For that matter even the existing ordinary financial audit proved for the most part irrelevant. Thornhill held that the concept of accountability assumed that the auditor could demand explanation on any matter he thought fit. It further presumed that the initiative was with the auditor and he was competent for his task; he knew where to look, what questions to ask, and he was not going to be blinded by the jargon of experts under examination. The tests to be applied were not simply the financial ones of probity and solvency. He could apply physical measurements, economic and statistical tests, technical assessments, and so forth. Thornhill expected the auditors to be completely independent both of ministers and their corporations. For this, he suggested the

[16]W.A. Robson in *the First Report from the Select Committee on Nationalised Industries, op. cit.*, pp. 531-537.

establishment of a Public Industries Audit Office under the control of a Parliamentary Officer. The Office should be empowered to initiate such reviews of the work and performance of the nationalised industries as appeared to them to be necessary for the purposes of accountability. The reports of the Office should be presented to Parliament and be referred to the Select Committee in the same way as the reports of the Comptroller and Auditor General are referred to the Public Accounts Committee. Thornhill would prefer to call it 'accountability-audit' instead of 'efficiency audit'.[17]

During the oral evidence before the Select Committee Prof. A.H. Hanson broadly agreed with Prof. W.A. Robson and Mr. Thornhill whereas Mr. D.N. Chester felt sceptical about their proposals. However the idea of Efficiency Audit Commission provoked several serious questions from the Select Committee. For instance, the Committee asked: Would not proposed scrutiny by the Audit Commission duplicate the work of the Departments and also that of the Select Committee? What sort of report should be expected from the proposed Commission? To whom should such reports be submitted? Should the proposed Commission give its opinion if it wanted? Who will appoint such Commission? Who would frame the agenda for the Commission? Who will pay for its establishment? Even the Select Committee was not unanimous on the virtues of the proposed Efficiency Audit Commission. Indeed, one of the members of the Select Committee commented: "There are only two conceivable bodies who can possess the power in this matter. If it is given to the government, then public accountability is lost because it has to take place within the machine; if it is given to this Committee, we have not the power to put into effect the recommendations which might be made".[18]

On the other hand, another Member of the Select Committee wanted the proposed Efficiency Audit Commission to work under the Select Committee, and he recalled: "After all, we have long since conceded the point that we need technical assistance, clerks to the Committee. Anything we can do to strengthen the authority of a Committee in dealing with people, whether it be by an audit body or some other body is acceptable to us".[19] However, the Chairman of the Committee warned that if the proposed Efficiency Audit Commission was set up, "There would always be difficulty in getting good chaps for these boards (*i.e.*, public corporations); because over their shoulder all the time is a ministry and a government department who come along and poke

[17]W. Thornhill, "Ministers Relations with Nationalised Industries", in the *First Report from the Select Committee on Nationalised Industries, op. cit.*, pp. 538-544.

[18]*The First Report from the Select Committee on Nationalised Industries, op. cit.*, pp. 562.

[19]*Ibid.*, p. 563.

their noses in, a minister who may get the chairman over a lunch and then send him back with orders he has never heard about. On top of all that you are going to put someone to look over the other shoulder, a bunch of efficiency engineers who might come down at any time without any warning and say they were going to find out why they were doing this, that or the other."[20]

Several nationalised industries opposed the whole idea of efficiency audit or 'accountability audit'. The following comments of the BOAC were typical of the reaction:[21]

1. There seems to be implicit in these proposals that BOAC, as one of the nationalised industries, is, at it were *ex-hopothesi*, not as efficient and not as accountable as it ought to be. This is just not true. We accept, of course, that perfection is never attained and that one of the more important functions of management is to strive to attain greater efficiency throughout the organisation. But this having been said, there is no ground to support any suggestion that an audit is required to bring BOAC's efficiency up to standard.
2. BOAC is continuously monitoring its own efficiency by making appropriate comparison with the results obtained by other international airlines.
3. The establishment of an efficiency audit would inevitably imply a lack of confidence on the part of the ministers in the members of the Board of BOAC who have been appointed to run BOAC efficiently.
4. If the auditors are not really better experts than BOAC's, then their exercise would be time-consuming and, in fact, would hinder efficiency.

While the Committee was still in session, the British Government announced in September 1967 that henceforward all major price increases proposed by the nationalised industries would be referred to the National Board for Prices and Incomes (NBPI), and also their intention that, in the course of its investigations into the industries' prices, the Board were empowered to carry out an efficiency audit of each industry. The NBPI were to be guided by the Ministers in respect of efficiency studies. For instance, the NBPI was given power to carry out efficiency studies only in respect of specific price increase. The Board were not expected to examine technological manners but were to concentrate on a review of the industries' machinery for keeping down costs, including

[20]*The First Report from the Select Committee on Nationalised Industries, op. cit.*, p. 563, para 1908.

[21]*Ibid.*, Vol. III, pp. 172-73.

the appropriate pre-casting and decision-making techniques. The Board were also to be assisted by a small number of specialist permanent staff to concentrate on efficiency studies and to provide some continuity. The Board were not concerned with efficiency audit, "in the sense of looking for errors made in the past". They were instructed to assist and advice for the future, *e.g.*, on pricing principles. This meant, in fact, "a forward looking exercise". The Select Committee felt satisfied with this development, and consequently decided to ignore the idea of Efficiency Audit Commission. In support of its decision the Committee offered the following reasons.[22]

1. A regular, continuous, external efficiency audit for the nationalised industries would not be compatible with the degree of autonomous responsibility that has been given the industries, or with the pattern of ministerial control. The Committee believed that apart from the normal commercial audit, the industries should not be accountable in detail, and on a regular basis, to anybody, parliamentary, ministerial, or in some manner independent, for their day-to-day efficiency or for their detailed managerial decisions.
2. Efficiency audit would discourage enterprising people from joining the Boards of nationalised industries.
3. Inefficiencies disclosed by the proposed Commission might encourage the Ministers to increase their interference in the affairs of the industries.
4. The efficiency audit would discourage the industries from applying their own innovations to improve efficiency.
5. The efficiency audit might cripple the decision-making ability.

On the other hand, in the opinion of the Committee, the proper role for efficiency studies should be to examine the current facts, cross, etc., and the current methods employed for securing efficiency in such matters as pricing policy, demand forecasting, investment appraisal, productivity improvement and cost control, and then making recommendations for the future. The Committee also warned that the efficiency studies undertaken by the NBPI should not duplicate the work of the Select Committee; it should supplement it.

IV

In India, the growth of the public sector since her independence has taken place broadly within the constitutional framework which assures

[22]*The First Report from the Select Committee on Nationalised Industries*, Vol. I, Chapter XV.

the establishment of equalitarian society through parliamentary democratic institutions. Surprisingly enough, with the expansion of the public sector, general awareness about various problems inherent in it have been very similar to those obtained in Britain and in other societies where the public sector plays more or less equally significant role. However, the problems of parliamentary accountability and auditing of the public sector in India have often provoked serious debates both in Parliament and in academic circles. It appears that while parliamentary accountability of public enterprises in India has been more or less shaped after the British model, the auditing practice has almost followed the American model. Both these aspects need to be briefly elaborated.

Just as in Britain, in India too there are two methods by which accountability to the Parliament is secured: (*i*) indirect, *i.e.*, control over the Boards canalised through ministers; and (*ii*) direct, *i.e.*, through review of Boards' activities by parliamentary committees.

All statutes and Articles of Association dealing with public enterprises in India grant extensive controlling powers to the ministers. As a matter of fact, with the expansion of the public sector of economy, it was thought essential to arm the competent ministers with necessary powers. The public sector's programmes often needed to be geared with the operations of the rest of the economic structure of the country. At the same time, the boards of nationalised industries have been given authority to take decisions except in respect of those matters where a minister's approval is required or in regard to which the minister has given a direction of a general or a specific character.

Experience, however, reveals that the statutory means of accountability possessed by ministers are of far less importance in the relationship between government and public enterprises in India than persuasion and pressures exercised informally through discussions, negotiations, and influence. It has been noticed that ministers usually hesitate to use their statutory powers which entail responsibility to the Parliament. They constantly take advantage of the existence of these powers to influence the Boards. Most of the reports of the Parliamentary Committee on Public Undertakings, confirm that the Boards remain constantly in informal consultation with ministries and the ministerial view is listened to with respect. Sometimes, ministers intentionally keep their activities almost secret in order to avoid accountability to Parliament. For instance, the Chagla Commission, while examining the affairs of the Life Insurance Corporation, remarked: ". . . there was a tendency on the part of the Finance Ministry to look upon the Corporation as a wing or branch of that Ministry and to issue orders to it in the belief that the Corporation was bound to carry out those orders." These remarks can prove correct in respect of several other public enterprises in India.

These strange relations, which the ministers have developed with

public enterprises, have constantly been the cause of Parliament's frustration in regard to the public sector.

In a parliamentary form of democracy, Members of Parliament are entitled to know all about the state undertakings. It is not only the right of Members of Parliament to keep themselves informed as to how government concerns are being run, but it is also their responsibility as representatives of the people to see that the public funds are put to the best use. The vital question is how far a Member of Parliament can go either in the exercise of his right or in the discharge of his responsibility, as stated above. The general rule is, or ought to be, that the autonomy required for an industrial or commercial enterprise should not ordinarily be infringed. If too much influence is allowed, then the very purpose of establishing autonomous corporations or companies shall be defeated. The problem has persistently been to preserve, nay, to achieve a balance between democratic principles and efficient performance of industrial concerns. It was because of these objectives that substantial powers were given to the competent ministers, and it was expected that while using these powers they would observe the firm parliamentary rule and tradition that a Minister is accountable to Parliament for anything he or his department does or for anything he has power to do, whether he does it or not. It is being increasingly realised that from this point of view the objective of parliamentary supervision of public enterprises has been defeated. The scope of parliamentary knowledge about public undertakings is restricted and second hand. Ministers sometimes come to Parliament and often decline to reply to question on the ground that this responsibility is non-existent. The net result is 'gross dissatisfaction' and 'utter frustration' on the part of the general public about the undertakings it owns. Theoretically, it is correct that the Parliament or its representative government creates the public undertaking by its own Statutes or Instruments of Association and has the power to expand, contract, quash or vary its powers by an appropriate piece of legislation. But, in practice, the Parliament has been reluctant to do so. However, there have been persistent demands for devising means to measure the performance of public enterprises.

Regarding the audit of public undertakings in India, there has been a tendency to follow the American model and not the British. However, the controversy over the role and scope of auditing has been growing with the expansion of the public sector in India.

V

In the United States, till 1934, exemption of the government corporations from the Auditor General's control was a common consistent feature. United States *ex rel* Skinner and Eddy Corporation *v.* McCarl[23]

[23]275 U.S. (1) (1927).

established the principle that in the absence of express legislation, the accounts of a national proprietary corporations were not subject to the audit of the Comptroller General of the United States as the accounts of the government departments were. In 1934, this freedom was attacked by an executive order subjecting the accounts of the government corporations created after March 3, 1933, whose accounting procedure was not otherwise prescribed by law, to 'settlement and adjustment' by the General Accounting Officer (GAO).[24] Earlier, in 1933, the Comptroller General had proposed that all Reconstruction Finance Corporation (RFC) funds be brought under his expenditure control. His attempt to assert auditing powers over the Tennessee Valley Authority, broader than Congress had contemplated, made it necessary for the statute to be amended twice in order to establish GAO audit.[25] In 1944, Byrd Committee recommended that the Comptroller General of the United States be made the Auditor and Comptroller, *ex-officio*, of each and every government corporation.[26] The struggle for complete auditing power succeeded in 1945 when Congress passed the Government Corporation Control Act (1945) which provided a commercial type of audit by the GAO for all the government corporations.

VI

The provisions for auditing the accounts of public undertakings are not uniform in India. For instance, the original Act of the Rehabilitation Finance Administration (1948) did not bind the Central Government to consult even the Comptroller and Auditor General while appointing auditors for 'Administration'. On the other hand, the Auditor General (AG) was empowered to audit the accounts of the Airlines Corporations.[27] Prior to the enactment of Section 619 of the Companies Act in 1956, the Auditor General's authority to audit a government company was based only on the Articles of Asscciation of a company which made provision for such an audit.

However, the Auditor General of India had been keen since the adoption of the Constitution to establish this *ex officio* claims of auditing the accounts of all public undertakings. For several years, the Government of India declined to recognise his stand as such yet was gradually led to amend certain Acts to provide for audit by the Auditor General. As early as 1951, the formation of the Sindri Fertilisers and Chemicals Ltd. had provoked controversy between the government and the Auditor General. The AG neither approved the company form of institution for

[24] Executive Order No. 6549, January 3, 1934.

[25] H. Pritchett, "The Government Corporation Control Act, 1955". *The American Political Science Review*, 1946, p. 503.

[26] *Senate Documents 227*, 78th Congress, Second Session, p. 30.

[27] The Airlines Corporations Act, 1953, Sec. 15(2).

running the public enterprises nor the arrangement of auditing provided in such Articles of Association. He insisted that AG's right to audit should have been established by an Act of Parliament and not conferred by the Articles of government companies.

The differences between the Government of India and the Auditor General on the issue of audit claims became public during the discussion on the Life Insurance Corporation Bill in 1955. Shri C.D. Deshmukh, the then Finance Minister, who was responsible to pilot that Bill through Parliament, took a firm stand on this point that, if the accounts of Life Insurance Corporation were to be audited by the Comptroller and Auditor General, he would prefer not to nationalise the Life Insurance business at all.[28] While explaining the constitutional position in this respect, he referred to Article 149 of the Constitution of India, which said : "The Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the accounts of the Union or any other body as may be prescribed by or under any such law made by Parliament." Shri Deshmukh held that there was no doubt that in respect of transactions which enter into accounts of the Union Government he was automatically the auditing authority. But, according to him, the Auditor General did not become the auditing authority automatically in respect of the affairs of statutory corporations or in respect of companies in which the Government might be financially interested. He became responsible for their audit only insofar as Parliament entrusted him with their audit.

On the other hand, the Auditor General of India decided to exert pressures on the Government through Parliament to establish his *ex officio* claims. Just a day before the auditing provisions, made in the Life Insurance Corporation Bill, were to be discussed in Parliament the Auditor General circulated a note amongst some selected Members of Parliament canvassing that according to constitutional provisions in India withdrawal of money from the Consolidated Fund, in whatever form or manner this was expended, should automatically attract audit by the Auditor General, and that this fundamental principle could not and should not be modified in any manner. He further supported his stand by quoting the Government Corporation Control Act, 1945 of the United States, which empowered the Auditor General to audit the accounts of all Government Corporations in the United States. The note was circulated amongst those Members of Parliament whom, perhaps, the Auditor General expected would speak for him. This activity of the Auditor General was disliked by the Government. At the same time, the Finance Minister did not experience much difficulty in refuting all arguments advertised through this circular.

[28]*Lok Sabha Debates*, April 23-30, 1955.

Eventually, the Auditor General's point of view was significantly but not entirely conceded by the enactment of the Companies Act, 1956, section 619 of which entitled him to audit all government companies. Section 619(1) of the Act states that provisions of section 619 shall apply to government companies. Section 619(2) provides that the auditor of a government company shall be appointed or reappointed by the Central Government on the advice of the Auditor General. Section 619(3)(a) empowers the Auditor General "to direct the manner in which the company's accounts shall be audited" by the auditor appointed on his advice. Under section 619(3)(b) the Auditor General is empowered "to conduct a test or supplementary audit of the company's accounts by such person or persons as he may authorise". Section 619(4) requires professional auditors of Government companies to submit a copy of this report to the Auditor General "who shall have the right to comment upon or supplement the audit report in such a manner as he may think fit". According to section 619(5), "the comments upon or supplement to the audit report shall be placed before the annual general meeting of a government Company at the same time and in the same manner as the audit report from the chartered accountants".

There are two aspects of this development. *Firstly*, this enactment brought in the authority of the Auditor General in the case of government companies and kept his position uncertain in the case of statutory public corporations. *Secondly*, the Act obviously resolved some conflicts but not without creating new problems. For instance, the law is obscure about the scope and coverage of the audit. It does not imply an efficiency-cum-propriety audit.

Several experts doubted the utility of this development. For instance, it would be relevant to recall here that Mr. Paul Appleby who was invited to examine India's administrative system, had attached only limited significance to the role of the Comptroller and Auditor General. In his report, Appleby said that the Comptroller and Auditor General was a primary cause of a widespread and paralysing unwillingness to decide and act; that he had no special competence for appraising administrative performance in general; that Parliament had a greatly exaggerated notion of the importance of auditing to parliamentary responsibility; that auditing was a necessary but highly pedestrian function with a narrow perspective and very limited usefulness; and that the function of auditing was a strictly negative one. Appleby believed that audit reports focus parliamentary attention on little things and this demeaned Parliament. According to him:

> Auditing wherever done has hardly more than two purposes. One is to insure propriety in the sense of quite precise adherence to

> established practices and standards in monetary transactions. . .The second purpose of auditing is to provide an independent appraisal of the assets and liabilities of an organisation which can certify as to the overall financial status of the undertaking. *Auditing can be done in ways to satisfy both requirements, in the case of industrial and commercial enterprises operated by the government, by private auditing firms.* The Comptroller and Auditor-General is otherwise oriented and too independent and, therefore, too little enabled to adjust his approach to many different kinds of operations, to serve the first purpose. His special kind of competence is not a special competence in the second purpose. . . Whether auditing is done by a privote firm or by the Comptroller and Auditor General, it should be clearly determined that auditors are not judges of either policy, administrative judgments or the public interest.[29]

In a report prepared by the Sub-Committee of the Congress Party in Parliament in 1959, it was recommended that audit should be commercial and should be carried out according to a pattern to be incorporated in the general law governing state-owned companies, and that the auditing firms could be drawn only from the approved panel. Apparently, the Sub-Committee did not wish the auditors to be appointed by the Government on the advice of the Comptroller and Auditor General nor the latter to have the power to guide and direct the auditors. According to the Sub-Committee, the Comptroller and Auditor General could discharge his responsibilities towards Parliament in his report on the ministry concerned with an enterprise. "It's open to him", the Sub-Committee concluded, "even to say that".

Commenting on the competence available with the CAG, Shri L.P. Singh said: "There is, no doubt, a commercial section in the Comptroller and Auditor General's organisation, but its experience is confined to government's own enterprises, which until recent years did not include manufacturing undertakings working for the market, or commercial undertakings, other than public utilities."[30]

However, Asok Chanda, a former Comptroller and Auditor General of India did not agree with the view. He held that it would be unrealistic to underestimate the potentials of the Comptroller and Auditor General in the attainment of country's economic policies. His successors, in fact, claimed that their office has been undertaking 'efficiency-cum-

[29]P.H. Appleby, *Re-examination of India's Administrative System with Special Reference to Administration of Government's Industrial and Commercial Enterprises*, New Delhi, Government of India (Cabinet Secretariat), 1956, pp. 55-6.

[30]L.P. Singh, *Public Control of National Enterprises in India*, Harvard University, 1960, p. 57 (unpublished).

propriety audit', instead of 'accountancy audit' or the 'regulatory audit'.

In a recent thought-provoking research study on "Efficiency Audit of Public Enterprises in India", Prof. Laxmi Narain stresses that there has been a lack of coordination between the Auditor General and the Parliamentary Committee on Public Undertakings (CPU). In this connection, his following observations are worth serious consideration:

(*i*) Out of the 63 enterprises covered in the three audit reports, the CPU covered audit comments only for 10 enterprises, till March 1967, since there is no coordination between the work of the CPU and the Auditor Ceneral.

(*ii*) There is a difference in approach also. The CPU provides a general review of an enterprise and does not deal with individual mistakes."[31]

Professor Narain rightly recommends a close coordination between these two bodies, at least for the benefit of the decision-makers in the enterprises. However, the Auditor General denies that there is any lack of coordination between his department and the Parliamentary Committee on Public Undertakings.[32]

VII

The Administrative Reforms Commission in its Report on Public Sector Undertakings, submitted in October 1967, observed that the role of independent auditor had grown beyond that of mere regularity audit; it had extended to appraisal and to the forming of value judgments. This development explained the significance of 'Efficiency-cum-Propriety' audit, or more briefly: 'Efficiency Audit'. According to the ARC, "this was essential to meet the urges of the public interested in the results achieved from the expenditure of public funds—whether there was extravagance and waste, and whether worthwhile results were achieved and at what cost."

The Commission realised that 'Efficiency Audit' was not implied in the existing provisions of the Companies Act. Such audit was, however, the prime concern of the Comptroller and Auditor General. For this, the Commission wanted to strengthen the staff of the Comptroller and Auditor General to march the needs. The Administrative Reforms Commission felt impressed by the French system of auditing of the public undertakings by the 'Commission of Verification of Accounts'. The

[31]Laxmi Narain, *Efficiency Audit of Public Enterprises in India,* New Delhi, Orient Longmans, 1972, pp. 82-3.

[32]S. Ranganathan's Foreword to Laxmi Narain, *Efficien Audit of Public Enterprises in India.*

Administrative Reforms Commission, therefore, recommended:

1. Four or five Audit Boards should be constituted, each Board dealing with specified sectors of public enterprise. These Boards have to function under the general supervision of the Comptroller and Auditor General.
2. The Staff required for the Audit Boards should be recruited through the Union Public Service Commission. And the expertise of the Audit Boards should be augmented by employing economists, management engineers, statisticians, etc., and also those who have had the experience of working in public undertakings.[33]

The Commission believed that it would be desirable to constitute these Audit Boards through an Act of Parliament. The enactment could define the role, functions and forms of these Boards as well as their relationship with the Comptroller and Auditor General.

After considering the recommendations of the Administrative Reforms Commission, an Audit Board was set up with effect from April 1, 1969, under the supervision and control of the Comptroller and Auditor General of India for conducting a comprehensive appraisal of the public undertakings. The first report, incorporating results of appraisal by Audit Board, was presented in 10 parts to the Parliament as "Central Government Audit Report (Commercial) 1970". The title of the next Audit Report has been changed from "Central Government Audit Report (Commercial) 1971" to "Report of the Comptroller and Auditor General of India for the year 1969-70—Central Government (Commercial)".

In order to cover the public undertakings, the Audit Board met in ten groups. Each group consisted of the chairman, two whole-time members and two part-time members. The chairman and two whole-time members are officers of the Indian Audit and Accounts Department and are appointed by the Comptroller and Auditor General of India. The two part-time members of each group were appointed by the Government of India in consultation with and with the concurrence of the Comptroller and Auditor General of India.

While explaining the scope of performance auditing Shri S. Ranganathan, Comptrollor and Auditor General of India, recently said: "Performance Audit is concerned with the entire gamut of decision-making process". And decision-making in the case of public sector undertakings did not necessarily imply the aim of 'profit maximisation'. The state

[33]Administrative Reforms Commission, *Report on Public Sector Undertakings*, Delhi, Manager of Publications, Government of India, 1967, Chapter IX, pp. 89-95.

sector, in fact, intended to achieve maximisation of net welfare of the society which, in turn, involved: (*i*) creation of employment opportunities; (*ii*) removal of regional economic imbalances; (*iii*) import substitution and/or export promotion; (*iv*) provision of infrastructure and creation of a self-reliant and self-generating economy; and (*v*) optimum utilisation of scarce national resources for production of goods and services most economically, consistent with the goal of certain socio-economic objectives laid down in the Directive Principles of State Policy.[34] Some of these aims are imprecise and even mutually contradictory. Evidently, comparing with the traditional audit, the scope of performance audit appears to be limitless and by implication controversial. For instance, it may be infinitely difficult, if not impossible, for the Audit Board to decide whether or not a particular transaction of the State Trading Corporation or that of the Hindustan Steel Ltd. complied with the Directive Principles of State Policy! Somehow, we will have to wait for a few reports of the Audit Board before we determine the performance of performance auditors.

VIII

In the end, let us list the salient points of our study:

1. With the expansion of the public sector, the debate on its 'accountability' and 'autonomy', has acquired greater significance, both in India and Britain. These two aspects of the public sector may appear mutually contradictory at first sight but this is avoidable. Somehow, it has been found exceedingly difficult to attain a healthy balance between accountability and autonomy. There has been a tendency, both in India and Britain, to stress the significance of one aspect and undermine the other's.
2. Both in India and Britain, there do exist several means of control and accountability of the public sector. Because of several reasons, most of these means have not proved as effective as expected in determining the performance of the public sector. Often the effectiveness of each medium of accountability is assessed in isolation of the results achieved through other means. There is also lack of coordination between several institutions aiming at the accountability of the state sector.
3. Audit of the public sector undertakings is at best only one of the means of accountability. Since it has to operate under certain constraints, it would be futile to overestimate its scope and significance.
4. In Britain, the Auditor General has consistently been declining

[31]Inaugural Speech of S. Ranganathan, Comptroller and Auditor General of India, at the Indian Institute of Public Administration, March 1, 1972 (mimeographed).

to extend his jurisdiction to the nationalised industries. On the other hand, in India, successive Auditor Generals have been very keen to get their department thoroughly involved in this area. But neither the British nor the Indian institutional framework has so far yielded satisfactory results. Most of the Indian Audit Reports are significantly deficient in quality. Comparing with the growth of the public sector in India the Auditor General's Department has failed to attract adequate know-how required to discharge its obligations.

5. In 1967, in Britain, the Select Committee on Nationalised Industries extensively examined several aspects of 'performance audit' and eventually decided not to extend its jurisdiction to the nationalised industries. The Committee also decided not to follow the French practice of auditing by a special commission. On the other hand, the Committee endorsed the official policy which entitled the National Board for Prices and Incomes to undertake *ad hoc* 'efficiency studies' of nationalised industries. However, in the same year, in India, the Administrative Reforms Commission strongly recommended the introduction of performance audit to the public sector undertakings, and it also recommended adoption of the French model. Hence the Audit Board was formed in April 1969.
6. Since the concept of efficiency, in the case of a state monopoly, is exceedingly complex to define, its precise measurement remains infinitely difficult. However, we will have to wait for a few British efficiency studies and Indian performance audit reports to assess the merits of our choice. □

Public Administration and the Public Corporation*

John K. Galbraith

I AM HAPPY this afternoon to salute one of the world's youngest professions. And compassion causes me to offer sympathy to what is probably the world's most criticised calling. For almost no one speaks well of the public administrator. The rare public official may, on occasion, be credited with doing a good job. This he usually concludes is because the speaker will one day want a favour. Criticism he knows to be in the nature of government. In no other field of human achievement, not even in modern painting or drama, is such a premium placed on misanthropy. The man who says of some public office that all is going well is immediately suspected of conspiring to conceal some unrighteousness. The man who avers waste, incompetence, nepotism, corruption or some more imaginative form of public legerdemain is assured of a respectful hearing. It is perhaps better if he produces some evidence but this is by no means necessary.

I speak on these matters, and the unhappy state of your profession, with some feeling for I belong to it myself. That is not only because I am the administrator of a sizable bureaucracy here on the Gangetic plain. Along with one in economics, I also have title to a chair in public administration. And we American members of the profession have particular grounds for unease. We are regularly called on for advice both at home and abroad. Often, as on occasions like this, we are listened to with outward respect. Yet we are always unhappily aware that we do not come with clean hands. The United States has not worked out its own problems in public management. More than most governments we have a penchant for overstaffing. It is a well-known fact that we proceed enthusiastically with automation and employ all persons so displaced in our Departments of Agriculture and Defence with some considerable outlet also in the State Department. This overstaffing in turn leads to the inflexibility, and on occasion the immobility,

*From *Indian Journal of Public Administration*, Vol. VII, No. 4, 1961, pp. 438-46.

that is associated with great numbers. When Charles Kettering, long vice-president for research of General Motors Corporation, itself a sizable organisation, was told that Lindbergh had flown the Atlantic all by himself, he received the news with a singular absence of surprise. "It would have been remarkable", said Kettering, "if he had made it with a committee."

Since he is a physician who has not healed himself, it is with diffidence that an American turns to the problems of public administration in other lands. Yet the Indian problem of public management, the one with which you struggle, is difficult to leave alone. In my view it is the most interesting in the world. More turns on its solution than in any other country. That is because, more than in any other country, you have extended the scope of public administration to embrace the production and distribution of economic goods while, at the same time, retaining the full substance of parliamentary democracy. In the United States, as in western Europe and Japan, we remove most of the administration of productive activity—the making of steel, machinery, automobiles and aluminium—from the immediate orbit of public concern. Performance is left to the test of the market reinforced as necessary by public regulation and popular indignation. In the Soviet type economies public administration does, of course, embrace the production and distribution of goods. But here it does so without the intrusive processes of parliamentary democracy. You alone on a large scale are testing the resources of the public administrator as a producer of goods under parliamentary scrutiny, supervision and guidance.

This, I venture to suggest, is a difficult and taxing experiment. Every good friend of India must be deeply concerned that it succeeds. On your profession—perhaps you will allow me to say on our profession—rests the considerable responsibility for insuring success.

This success will depend, I venture, on the adaptability and pragmatism of the public administrator. Not much time can usefully be spent in search for the universal principles of administration. These, when they emerge, invariably turn out to be an articulation of the obvious. But we can usefully reflect on the new problems which the public administrator encounters when he enters upon economic activity —when he becomes an entrepreneur, a producer of goods and services. This is a world that is very different from the traditional sphere of government. When government extends its arms to embrace economic activity the problems of public administration take on new form and new dimension. In the remainder of my remarks this evening I would like to dwell on the problems of public administration in the field of economic production.

II

The world's religions are, on the whole, disappointingly unspecific on the nature of the economic system in the hereafter. I have long wondered why some economist hasn't asked the Ford Foundation for a research grant to go into the matter. We know only that Heaven, as it is described to Christians, employs gold as a paving material rather than as a medium of exchange and that the principal consumer's products are string instruments. There is no indication of the nature of the production mechanism whether for making harps or other goods. But if there is production of goods in the next world on any important scale, we can be certain that it will be carried on by an industrial firm or corporation. In this world, whether in India, the United States, the United Kingdom, or Soviet Union—where any productive task must be performed—the firm is ubiquitous and inescapable. It has no substitute.

And the reason is simple: Modern productive activity—the making of steel, aluminium; fertiliser, lorries or machine tools—requires a complex blending of skills and talents in a complex mosaic of tasks and functions. These skills and talents are not themselves rare, esoteric or exceptional. If genius were required for economic activity, our situation would be serious for genius is always scarce and the supply highly unpredictable. The peculiar achievement of the industrial firm is that it combines the commonly available talent to do what the isolated individual could not possibly accomplish. It is a synthetic personality, in which many real personalities are combined, and its accomplishment is more than the sum of isolated individual contributions could ever be.

The corporate personality is not required for simple small scale production such as most agriculture. It is not needed for most government functions—for the administration of justice, the collection of revenue or the conduct of public education. These lend themselves to accomplishment within broad and stable rules. There are some forms of large scale economic activity—the generation of electricity for example —which are rather easily reduced to a routine and where a similar organisation will suffice. But the most characteristic feature of modern industry is the large scale of its units, the complexity of its technology and the complex claims which the modern market makes upon it. Here there cannot be predetermined rules for every contingency. There must, instead, be adaptation to ever-changing circumstances and the success of the adaptation will depend on the blending of a variety of technical knowledge and experience possessed by numerous individuals. This blending is accomplished by the corporation. For the conduct of complex tasks it is a competent and versatile if synthetic or artificial personality.

To see the corporation as a personality provides the prime clue

to its administration. The individual or natural personality realises itself only under conditions of liberty. To subject the behaviour of one individual to the detailed surveillance of another is to insure debasement and inferior performance. Individual achievement is at its best when the individual has a clear set of goals and the means, including of course the knowledge, with which to pursue these goals under the stimulus of his own will. As with the individual personality so with the corporate personality. Autonomy, the independence to pursue specified goals, is equally important for the producing corporation. So are clearly specified goals. Indeed these are more than important; they are the only administrative arrangements that are consistent with the effective corporate being.

III

More specifically, the synthetic personality which we call the firm or corporation involves an intricate problem of cooperation and coordination between its parts. Much of this cooperation and coordination is accomplished automatically—it is the fruit of familiarity and confidence as between the participants. One technician supplements his knowledge by resort to another—he knows to whom to turn and just how much confidence he can repose in the knowledge and judgment of the man whom he asks. The skilled worker similarly seeks help when his task takes him beyond the range of his own proficiency. This also he does on his own volition. The manager must know when and how to help; but no single manager ever manages in the sense that he makes all of the decisions. In the successful corporation, decision-making is deeply inherent in the corporate being.

There are equally numerous and intricate problems of coordination along the time dimension in the industrial firm. Modern industrial processes are closely interdependent; delay in one place will ordinarily cause delay with cumulative effect elsewhere. There is, accordingly, a high premium on timely decision. Perhaps the most distinctive requirement of the industrial establishment, as compared with the traditional government agency, is its dependence on timely decision. In the industrial firm a bad decision made on time will not usually be as costly as a good decision made too late. The bad decision can often be reversed at low cost. The time lost waiting for the good decision can never be retrieved.

The need for autonomy and the peculiar vulnerability of the corporation to outside influence are directly related to these characteristics. If external intervention affects people it will impair or upset the complex and subtle set of relationship on which effective coordination depends. For example, the arbitrary withdrawal of a known and proven man and the substitution of another of unknown talent or reliability leads to

immediate uncertainty as to how responsibility for decisions is to be shared, or the reliability of the decision in which the newcomer participates. Uncertainty and indecision result. A common form of external intervention is review of certain types of decisions—on procurement, product design, production techniques, prices or the like. Inevitably this review takes time. Coordination on the time dimension suffers. In the process of preventing poor decisions, delayed and hence more costly decisions are insured.

I must emphasise that the corporate personality is damaged by both well-intentioned and ill-intentioned intervention. There is little to choose between the two.

In both modern American and modern Soviet organisations there has been a large measure of accommodation to the requirements of the corporate personality for autonomy. The modern large American corporation enjoys almost complete independence from its stock-holders, the principal source of external interference. While lip service is always paid to democratic control by the owners, it is recognised in fact that any extensive and effective interference by stockholders in management would be exceedingly damaging. Suit is now pending against the principal owner of one of our large airlines to keep him from interfering with the management of the company he owns. Thus, all effective authority as regards production decision resides within the corporation. This authority is also jealously defended against the state.

I do not speak with equal confidence of the Soviet-type economies. But certainly no theme has received more emphasis in recent times than the need for according to managers the independence and autonomy that enables them to do their job. Soviet factory managers, an impressively capable group of men the visitor discovers, consistently stress the importance of such autonomy for the effective discharge of their responsibilities.

It is in the case of the public firm in the parliamentary democracy that the accommodation is most difficult. For there the firm must contend with forces that make for the kind of intervention that is most destructive of the corporate personality. At the same time the goals that are essential for the full achievement of the firm are not always clearly defined.

IV

The public enterprise in the parliamentary democracy is publicly owned for a purpose. The obvious purpose is the exercise of a measure of democratic control over the enterprise. This control insures that the firm's procedures and decisions will be in the public interest. It insures that its decisions are sound and sensible and serve the general good. If

there is no effort to exercise this control, there is no purpose in public ownership.

So it will be said and so it is said. But plausible and innocent though this sounds, especially when we interject the magic word democratic into the discussion, we have here a serious and often unsuspected contradiction.

If individuals within the corporate organisation are servants of a force outside the organisation they will no longer think automatically of the goals of the organisation. They have, at best, a dual obligation: one part runs to the firm and the other to the external authority. One eye is on the organisation; the other is on the parliament. The multitude of decisions will not automatically be attuned to the needs of the corporation. In short, the dual obligation is inconsistent with the requirements of the corporate personality which calls for the implicit commitment of many people to the common goal.

The external authority has an even more damaging effect on the time-dimension of decision-making. I have stressed the importance of timeliness as compared with precision in industrial decisions. But the man who must answer to a parliamentary committee or brief a minister will always reserve to himself the right to review the decisions that he must later defend. Moreover, parliaments are ordinarily concerned not with late decision but with wrong decision. It is on these that a man can score his points. The result is centralised and hence delayed decision. And they mean the waste that goes with delay. These are damaging to the corporate personality which should distribute decision-making authority to the level where it can be exercised with the optimal combination of accuracy and expedition. Though slow decisions may be criticised they will not be easily corrected. The need to protect against the wrong as compared with the untimely decision, even though the latter may be intrinsically the more damaging, will remain.

The problem, I repeat, is not wisely-motivated or of ill-motivated intervention. Rather it is of anything that interferes with or distorts and destroys the firm or corporate personality. This is a matter of the utmost importance for external influence and impairment of autonomy will always defend itself on the grounds of the wisdom or sincerity of its motivation. This is not a defence.

V

I have noted that the corporate body, like the individual, is effective only if it has liberty to pursue specified goals. This allows the full development of its personality. The second great problem of the public corporation in the parliamentary democracy concerns the goals. Paradoxically, while there is grave danger that parliamentary authority will circumscribe the decision-making process and hence impair the perso-

nality of the firm, there is also danger that it will not be sufficiently aggressive and firm in specifying goals. Hence the standards of achievement of the publicly-owned firm will be insufficiently clear.

The goals of the modern industrial corporation in the United States or western Europe are reasonably specific: Broadly speaking, the most successful corporation is the one that makes a good profit and achieves a rate of growth greater than its rivals. (To be head of a profitable organisation is an undoubted source of esteem in the United States, but the highest honours are invariably accorded to the sizable firm which can claim the greatest rate of expansion.) The setting of targets for production and profit, and the drive to meet and exceed these goals, is a classic feature of Soviet planning.

The goals of the public corporation under democratic socialism have rarely been so clear. To maximise profits seems suspiciously like a return to capitalism. The obligation to grow and expand has rarely been definite and firm. Subjective goals, such as the rendering of good service to the community or concern for workers have been common. They have the handicap of their subjectivity—it is open to anyone to contend whether they are or are not being met. Those responsible often find it personally advantageous to spend more time asserting their good performance than in insuring it.

VI

You will not be in any doubt as to how I see the solution. The industrial firm, by one designation or another, is inevitable for any large and complex industrial task. It has a demanding personality; the major demand is an autonomy in everyday decision-making that is nearly absolute. That autonomy extends to the right to make mistakes for error will often be the price, and a small one, for expedition. The need for autonomy in the conduct of military operations is equally great. It is accorded as a matter of course. Nor can it be denied that generals have exercised to the full their privilege of making mistakes. The delay that excludes error is the one unforgivable mistake. In the United States a few years ago one of our large automobile companies produced an automobile which was a sensational mistake. Great costs were incurred on the theory that the public wanted a mammoth vehicle with something of the physiognomy of a seasick frog. Had this been a publicly-owned corporation the criticism would have been acute. Doubtless it would have led to the requirement that all changes in car design should henceforth be submitted to a panel of public reviewers. The result might have been the avoidance of similar mistakes; one imagines that the result would have been recurrent and in the end much more costly delays while the panel resolved the problems of automobile aesthetics. The need for this autonomy is not peculiar to our system

or any system. It is required by the nature of the corporation in all systems,

Autonomy must include, subject only to standards designed to prevent abuse, hiring and firing of personnel. It is flexibility here that makes possible the complementing of one skill by another, one man's knowledge with that of another and which enables the synthetic personality which we call the firm to do what no individual can do. The intrusion of politics and patronage into the public corporation is deeply subversive of the subtle relationships on which an effective development of this synthetic personality depends. But so also can be the intrusion of civil service procedures and routines. The latter may be admirably designed to insure equality of treatment for all employees. But the effect can be to destroy thc easy interpersonal adjustments and the automatic coordination on which effective operation depends. The world is full of unhappy choices and in modern industrialism one of them is between perfectly just rules and satisfactory performance.

VII

But if the corporation must be protected in its personality from intrusion by outside authority upon its decisions, outside authority must be unremittingly firm in what it asks of the corporation. The goals it sets must be clear and utterly explicit. Success in all societies is in large measure its own reward, but there must never be any doubt as to what success consists of. If I had to lay down a measure for performance for the publicly-owned corporation in the developing country it would be the earnings that it is able to put into its own expansion. Such expansion, in the given or related field and within the framework of plan, would be considered the prime goal of the public sector firm. The most successful firm would be the one which by its efficiency and drive finds the earnings that allow it the greatest growth. But I do not wish to press the point unduly. The important thing is that the goals be specific, clear and comprehensible to all.

And though the society should be wholly tolerant of errors that are within the framework of success it should be wholly intolerant of failure to achieve the specified goals. Indeed the non-achievement of goals, not the individual mistake is the meaning of failure. Autonomy does not mean less public accountability. If anything it means more—but it is accountability not for method, procedure or individual action but for result. □

The Comptroller and Auditor-General and Public Enterprises in India*

Laxmi Narain

OUR COMMITMENT to a socialistic pattern of society adds vastly to the importance of public enterprises. They are destined to play a crucial role in the country's economy in the years to come. The efficiency and economy with which they are managed naturally concern all of us. Of equal importance is the need for an impartial body to judge their working and to report on their achievements and failures.

Audit is one of the important instrument of control and accountability, and more so when put in the hands of an independent public authority—the Comptroller and Auditor General, hereinafter referred to as the C & AG. This article aims at discussing the nature and effectiveness to this method of control. The existing legal provisions in this behalf, in their historical perspective, are first described.

II

The organisational pattern broadly governs the type and method of audit in Indian public enterprises. If they are run departmentally like the Chittaranjan Locomotive and ordnance factories, the accounts are subject to conventional government audit. The accounts of the enterprises registered as government companies are audited by professional auditors (chartered accountants) appointed by the Central Government on the advice of the C & AG. Till recently, the procedure for appointment used to be that the company forwarded the name or a panel of names of the auditors to the Government of India. The latter sent it for approval to the C & AG who almost invariably accepted the company's suggestion. In very few cases where it was not accepted by the C & AG the reasons mostly were that either the auditor had

*From *Indian Journal of Public Administration*, Vol. IX, No. 1, 1963, pp. 74-87,

been too long with the company, or he had already appointments in other government companies.

At present, the auditors to be appointed are not suggested by the company concerned, nor by the government. The government forwards to the C & AG the names of the companies in which auditors are to be appointed. The C & AG then recommends the name of the auditors to be appointed in each of the enterprises. The government can ignore this advice, but so far no such instance has occurred.

In public corporations diverse audit provisions exist. The Damodar Valley Corporation Act provides that the accounts shall be audited in such manner as may be prescribed in consultation with the C & AG. Under the rules framed under the Act, however, the Central Government has provided that the audit shall be conducted by an officer of the C & AG. A later amendment to the rules has provided that the accounts so audited must be countersigned by the C & AG.[1]

In the Industrial Finance Corporation Act, 1948, audit was entrusted to 'not less than two auditors' appointed by the Central Government. By an amendment in 1952, only one of the two auditors was to be appointed by the Central Government *in consultation with the C & AG* and the other elected by the institutional shareholders of the Corporation. The Central Government's power of giving directions to the two professional auditors requiring them to report upon the adequacy of measures taken by the Corporation for the protection of its shareholders and creditors, or on the sufficiency of their audit procedures was also to be exercised in consultation with the C & AG.[2] In addition, the C & AG was given a right either on his own motion, or on a request from the Central Government, to undertake such audit and at such times as he considered necessary. Another provision made was that if the Central Government was called upon to pay any subventions on account of its guarantee of the Corporation's loans, the C & AG shall undertake the Corporation's audit.[3]

[1]*Gazette of India*, 27th December, 1952, Part II, Sec. 3. The Public Accounts Committee, in their Reports on the Accounts for 1947-48 (post-partition), have observed: "As regards the audit of other corporations financed either entirely or partly by the Central Government, we share the views held by the C & AG that his functions and responsibilities should be defined in explicit terms in the statute itself providing for the setting up of a Corporation", p. 5.

[2]*Industrial Finance Corporation Amendment Act, 1952*, Sec. 24.

[3]*Ibid.* The accounts of the Corporation for the year ended June 1954 were for the first time audited by the C & AG as empowered by this Section. At that time the Corporation was receiving a subsidy from the government. Since the year ended June 1957 no subventions on account of guarantee have been received from the government, but audit by the C & AG continues, perhaps because earlier subventions have not yet been returned in full.

The above provisions were not discussed in any detail at the time they were introduced through an amending Bill. The justification for the amendment given by Shri M.C. Shah, the then deputy minister of finance piloting the Bill, was that it brought the Industrial Finance Corporation Act in line with the State Financial Corporations Act, 1951, which contains similar provisions. The deputy minister also disclosed that the amendment was in accordance with the wishes of the Public Accounts Committee.[4]

There was hardly any discussion on the audit provisions of the State Financial Corporations Act which inspired the above amendment except that Shri A.C. Guha, M.P., made an unsuccessful attempt to the effect that both the auditors, which the Bill provided, should be appointed by the C & AG. He expressed an apprehension that "the shareholders may put some convenient auditors".[5]

The propriety of appointing auditors on the basis of the interest they represent is open to question. If an auditor is appointed by the government as a shareholder and the other by the rest of the shareholders, both being qualified chartered accountants, should there be difference in their approach to the work? Are not both expected to audit according to the well-established traditions and practices of the profession? The auditor is an impartial expert who protects the shareholders' interests in general. No distinction therefore need be made between the two sets of auditors appointed to carry out audit. In any case, when the government considers it necessary, it can exercise its power of using direction to the auditors, in consultation with the C & AG under the Act, regarding the way in which audit is to be carried out.

In the Rehabilitation Finance Administration, incorporated in 1948, the C & AG was not entrusted with power to audit; professional auditors were to be appointed by the Central Government.[6] But as a part of the systematic extension of the C & AG's audit control to public enterprises, the Rehabilitation Finance Administration Act was amended in 1953 and the C & AG replaced professional auditors.[7]

In the case of Reserve Bank Act, 1934, and amendment made in 1948 provides that the accounts shall be audited by not less than two

[4]During the debate on the amendment, Dr. M.M. Das, who was then a member of the PAC, disclosed that the Committee had reached a unanimous decision about the C & AG's jurisdiction over the Corporation. He added that the "Auditor-General himself approved this decision of the P.A.C." and "the Government was informed about this decision", *Lok Sabha Debates*, 5th December, 1952, col. 1649.

[5]*Lok Sabha Debates*, 28th September, 1951, col. 3664.

[6]*The Rehabilitation Finance Administration Act, 1948*, sec. 16.

[7]Rehabilitation Finance Administration (Amendment) Act, 1953. This Corporation was wound up in 1957 by the Repealing and Amending Act, 1957.

auditors appointed by the Central Government.[8] The Central Government is also empowered to appoint the C & AG to examine and report upon the accounts of the Bank. The provision, however, seems to be formal safeguard and has not been invoked in practice so far. The three chartered accountants appointed by the Central Government, who have remained uncharged since 1948, have been submitting a routine and formal report, without any comments year after year.

When the nationalisation of air transport was being discussed by Parliament in 1953, the opinion had more or less been changed in favour of the C & AG. Not much discussion therefore took place on the audit provisions or the Air Corporations Bill which provided that accounts of the two air corporations shall be audited by the C & AG.[9] The Air-India, however, in addition, gets its accounts audited by two firms of auditors "in accordance with the generally accepted auditing standards applicable to joint stock companies". The reasons given by the Air-India are: first, the C & AG is not obliged to complete the audit of the Corporation's annual accounts and to issue certificate on which the Board of the Corporation could rely to enable the Board to adopt the annual accounts and submit it to the Central Government within the time stipulated, and secondly, the Boeing Loan Agreement contained a provision for the submission of a periodical statement of accounts by the Corporation duly certified by the chartered accountants satisfactory to the banks.[10] According to Rule 6 of the Corporation it has to submit its accounts duly passed by the Board to the Central Government and the C & AG by 31st August every year. The Corporation perhaps does not feel confident to do so unless its accounts have been audited by qualified auditors. The Indian Airlines Corporation does not follow this practice.

When the C & AG carries out a full-fledged audit of the Air-India International, the need to appoint private auditors may be questioned. As in the IAC, the Air-India International also could develop a strong internal audit department to avoid the present duplication. As regards the Corporation's second argument, it may be noted that professional auditors were there even before the Boeing Loan Agreement.

The State Bank of India Act, 1955 provides for the appointment of two qualified auditors by the Reserve Bank in consultation with the Central Government. In addition, the Central Government can appoint "at any times such auditors as it thinks fit to examine and report on the accounts of the State Bank"[11] When the State Bank of India Bill was under consideration in the Lok Sabha Shri B. Das, a senior member

[8] *The Reserve Bank of India (Tranfer to Public Ownership) Act, 1948*, Sec. 7.
[9] *The Air Corporations Act, 1953*, Sec. 15(2).
[10] *Thirty-fourth Report of the Estimates Committee* (Second Lok Sabha), p. 39.
[11] *State Bank of India Act, 1955*, Sec. 41(1) & 41 (9).

of the House, felt strongly on the question of audit, and remarked: "I got the surprise of my life when in the year 1955 in clause 41[12] (which dealt with audit) there is no desire to mention the name of the Auditor-General."[13] He reminded the minister (Shri A.C. Guha) that in other financial corporations, *viz.*, the Industrial Financial Corporation and the State Financial Corporations, the C & AG had been given a hand. The minister's reply to this was naive and weak. He said: "Every one of the Auditor-General's reports is placed on the Table of the House and is liable to be debated...The State Bank will continue to be the biggest commercial bank of the country giving credit not only to other scheduled banks but also to industrial and commercial concerns. In these circumstances it is not quite prudent to lay all its reports on the Table. There may be some defects also; I do not claim that there will not be any defects or deficiencies, but still if we accept the function of this Bank as that of the biggest commercial bank of the country we cannot take that risk." He conveniently overlooked the fact that the Industrial Financial Corporation and state financial corporations were also in the nature of banking institutions. To Shri B. Das's interruption that "You cannot evade the constitutional position", the minister baldly replied: "That may be a point for the Supreme Court."[14]

At the time of the clause-by-clause discussion, an amendment was introduced to the effect that the auditor be appointed by the C & AG and not by the Reserve Bank, but it was lost.[15] Similarly, another amendment negatived was that the Centre's power "to appoint such auditors as it think fit" should specifically be mentioned to include the Auditor-General.[16]

A year later when the Life Insurance Corporation Bill was before the Lok Sabha, there was a major controversy on the issue of the C & AG's audit control over the Corporation. The minister, Shri C.D. Deshmukh, who piloted the Bill, had to face a rough time in keeping the C & AG at arm's length. The minister was in difficulty, particularly because, in the past, at his own instance, the C & AG had found a place in the statutes relating to several public corporations, and in the law dealing with government companies. He had no convincing answer to the question repeatedly thrown at him: Why other commer-

[12]This is now Section 41 of the State Bank of India Act.

[13]*Lok Sabha Debates*, 23rd April, 1955, col. 6135. Shri B. Das had been agitating for the nationalisation of the Imperial Bank for a long time and as such was given the first chance to speak on the nationalisation bill.

[14]*Ibid*, col. 6390. It is interesting to note that when Shri A.C. Guha was not sitting on the Treasury Benches his views about the powers of the C & AG in relation to public enterprises were different.

[15]*Lok Sabha Debates*, 30th April, 1955, col. 7167.

[16]*Ibid*. This amendment was introduced by a Communist member, Shri Sadhan Gupta. There was no discussion on the motion.

cial and business enterprises were put under the C & AG's jurisdiction? His argument was that "the enterprises like the D.V.C., I.F.C., Air Corporations and government companies function more or less under governmental conditions". He also took the help of arguments of maintaining *status quo* in the Corporation's working, and of the shortage of staff with the C & AG[17]

Shri C.D. Deshmukh discounted the main fear expressed by the M.Ps. that denying the C & AG's jurisdiction would affect parliamentary accountability. His appeal was: "You could always add later, if you find the present system does not work". And finally the emotions were brought into play. The minister felt "terrified of the wisdom and hindsight" of the C & AG. He went on to disclose: "When I took the initiative in suggesting nationalisation of life insurance, to my colleagues in the cabinet I said that if the affairs of the Corporation, or whatever we might establish, were going to be audited by the ordinary audit machinery, then I would not recommend the nationalisation of life insurance."[18]

The impression of an unjustifiable extension of the Auditor-General's control along with Dr. Paul H. Appleby's scathing and assailing criticism of the Auditor-General[19] (a reference to it was made by him during the debate) might have influenced the minister's thinking on the subject. The minister fought and won against the C & AG. The clause regarding audit, was not finally amended to bring in the C & AG's audit. The impression[20] given was that the question was being fought more on prestige than on merit, though it could be fought on merit as well.

The above discussion indicates how a systematic effort has been made by parliament to extend the jurisdiction of the C & AG to all public enterprises. The critism that was levelled by the C & AG, Shri Narhari Rao, that Government companies were a fraud on the constitution because, *inter alia*, the C & AG had not been given a statutory right to audit government companies has been met by the

[17]*Lok Sabha Debates*, 21st May, 1956, cols. 9073, 9078.

[18]*Ibid.*, col. 9078. From the official records it appears that while speaking about the C & AG the minister's remarks had to be expunged at three places. It is therefore difficult to gauge the emotions intermingled with the issue. *Lok Sabha Debates*, 22nd May, 1956, col. 9223.

[19]Paul H. Appleby, *Re-examination of India's Administrative System with Special Reference to Administration of Government Industrial and Commercial Enterprises*, Cabinet Secretariat, Government of India, New Delhi, 1956, pp. 27-9.

[20]One of the events which created such an impression was a note circulated by the C & AG to some members of parliament in support of his claim to audit the accounts of the LIC (Lok Sabha Debates, 1956, Appendix XIV, Annexure 32). The minister, Shri C.D. Deshmukh, took a strong exception to the circulation of this note. (Vide *Lok Sabha Debates*, . . . 22nd May, 1956, col. 9223.)

amendment of the Companies Act in 1956, which provides that the C & AG shall have a right: (*a*) to direct the manner and to give instructions about the way the accounts shall be audited, (*b*) to conduct a supplementary or test audit, (*c*) to comment upon or supplement the audit report which was to be submitted to him by the auditors, and (*d*) to advise in the matter of appointment of auditors.[21] Similarly, the anxiety of the members of parliament that the accounts of the public corporations should be audited by the C & AG or at least in the matter of appointment of auditors, the C & AG should have a say and that he must have the right to comment upon the audit conducted by such auditors—has been largely met except in the case of Life Insurance Corporation and the State Bank of India.

Dean Appleby attributes desire to extend the control of C & AG to parliament's 'greatly exaggerated notion' of the importance of auditing and of 'parliamentary responsibility'. Parliament, he says, has given 'unselective attention' to what he calls "the pedestrian function of auditing". He charges parliament for not defining the functions of the C & AG, as the eonstitution contemplated it would do resulting in "Into the vacuum thus left, the auditor (C & AG) has moved."[22]

Whether this criticism is justified or not. it is true that because the C & AG occupies an important position[23] in the Public Accounts Committee, parliament has a very favourable attitude towards C & AG's audit. Serious financial irregularities in some public enterprises have further accentuated parliament's desire to extend C & AG's audit to public enterprises.

III

Let us now examine the content of the C & AG's audit of public enterprises and the manner in which it is conducted.

[21]It is important to note that the original language in the Bill regarding appointment was "after consultation with" the C & AG but it was charged to "on the advice of the C & AG" on private member's motion. (Vide *Lok Sabha Debates*, 8th September, 1955, cols. 12990-12999.)

[22]Paul H. Appleby, *op. cit*. p. 29. Appleby's reference to the Constitution relates to Article 149. This Article states: "The Comptroller and Auditor-General shall perform such duties ond exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any Law made by Parliament. . . ." Parliament, it may be noted, has not yet moved in the matter even though the matter is under consideration since 1958.

[23]Very much unlike his counterpart in the UK, the C & AG in India. "continuously holds consultation with the chairman as the evidence is proceeding and very frequently asks questions from the departmental witnesses and also makes comments and observations in the course of such evidence". S.L. Shakdhar, Comptroller and Audit-General of India and the U.K.—A Comparison," *Indian Journal of Public Administration*, Vol. IV, No. 4. p. 407.

It is important to note that auditors of the C & AG's office generally insist on reporting whatever does not fit within its mould of rules, regulations and procedures. Nowhere audit manuals and instructions give discretion to the audit staff to attach lesser weight to lapses of procedure or regulations if the enterprise is being administered efficiently.[24] The auditor would argue: it is no part of his duty to pass a verdict or give a judgment about an enterprise, it is for the Public accounts committee or parliament. He collects, collates and analyses facts as fully as possible and invites parliament's attention to them. Not only that audit objections are mostly petty and formal often a presumption of *mala fide* is made simply because a particular procedure has been circumvented to meet the exigencies of a situation.

This approach is bound to do great harm to a live business organisation. Business means taking delicate decisions, some of which must go wrong. No individual in business would like to be haulted up before a parliamentary committee and explain the correctness of a decision taken years back, probably by his predecessors, in altogether different conditions and circumstances. As the C & AG's reports attract great attention from parliament and the public, much damage could be done even by small matters.[25] While caution and care must be exercised, there is always a point beyond which the price to be paid for excessive caution becomes disproportionately high. People and parliament will, therefore, have to be educated to be tolerant of minor errors if an enterprise has on the whole made a success; while being intolerant of failure to achieve the specified goals.

A good deal of the criticism of C & AG audit also arises because

[24]The audit department's view is that many of the rules, regulations and procedures which audit has got to follow are laid down by the administration. Government has rules of procedure for financial controls, many of which persist from the colonial days and are based on the philosophy of distrust of the individual. These rules have got to be followed even though outmoded and, in many cases, meaningless. But the blame for the results is shifted to audit. The present C & AG told the writer that audit people are completely helpless about many of the rules of procedure laid down by the administration. And even the C & AG's efforts to get frustrating rules changed may not always be successful.

[25]It is necessary to state that audit objections do not just go before the PAC and parliament. In addition to the discussions and exchange of views in the course of audit, before the final report is submitted to the enterprise, it is discussed in the appropriate ministry at a high level, the participants being the ministry officials, the C & AG staff and the enterprise. Some of the more important observations of the C & AG on various public enterprises form part of his report to parliament which is looked into by the PAC. Thus, the number of objections which reach parliament are very few as compared with the total objections raised by the C & AG staff in various public enterprises.

it is claimed to be an efficiency-cum-propriety audit.[26] For this purpose, it probes into the decisions taken by the Board of Directors. Dr. Paul H. Appleby questioned this and also objected to the instructions of the C & AG regarding the audit of public enterprises which state "the audit by the C & AG will be generally directed towards a review of the decisions taken by the board of directors to ascertain to what extent their powers have been exercised in the best interest of the undertakings.[27] About these instructions he challengingly asks: "What special competence for appraising objectives and appraising administrative performance in general has the C & AG. What is the cabinet for, what is the prime minister for, what is parliament for, what are the individual ministers for, what is a secretariat for, and what is a bureaucracy for?"[28]

Even assuming that it is proper for the C & AG to conduct efficiency-cum-propriety audit, experience has shown that even with its modern slant on managerial assessment, audit can only look into managerial efficiency so far as it is reflected in the financial results of an enterprise's working. Audit of accounts, however, widely interpreted is incapable of evaluating technical efficiency.[29] An auditor for instance, cannot comment upon the alternative courses of business decisions in regard to investment in factors of production, or whether the technical efficiency of the means of production is at its optimum. Similarly, an auditor is not competent to review specific management decisions.

The C & AG in India in this regard suffers from an additional drawback, *viz.*, that he does not have adequate qualified personnel. The commercial audit department of the C & AG's organisation is staffed largely by those brought up in government audit tradition. They find it difficult to adjust themselves to differing circumstances of public

[26]According to the present C & AG, his audit evaluates only financial efficiency as distinct from any other efficiency. But it is not quite clear what the financial efficiency will cover.

[27]Paul H. Appleby, *op. cit.*. pp. 28-9. These instructions were issued by Shri Asok Chanda. The present C & AG, Shri A.K. Roy, does not agree with them.

[28]*Ibid.*, p. 29.

[29]Sir Frank Tribe, a former C & AG of the UK, in his evidence to the Select Committee on Nationalised Industries, said, "I could undertake the audit of public corporations, although I do not want to, but I would like to make it quite clear that, if I were to be charged with this duty I should certainly not claim that I could undertake an efficiency audit. I think there is a lot of misconception about this. I do not believe myself that any examination of a board's accounts can ever lead to a right judgment upon the efficiency as such of the organisation itself. . . .I believe certain accountants in America do claim to do that kind of (efficiency) accounting, but. . . they have on their staff experts in personnel management and other types of efficiency, including often technical engineers and other technicians, and then they make a comprehensive report on efficiency, only part of which is related to the accounts." Report of 23rd July, 1953, HMSO, evidence, Q. 136, p. 16.

enterprise audit. A proper reorientation of their outlook has not yet taken place. Further, the audit parties deputed to various public enterprises are so often changed that they lack proper perspective of the enterprise's operations.[30] As their conclusions are based on insufficient knowledge of the organisation, these are taken lightly and even ridiculed by persons with the inside knowledge of the organisation's working. The audit staff thus unnecessarily gives an impression of being 'blood-hounds'' rather than the 'watch-dogs' which they are supposed to be.

In the U.S., government corporations are audited by the Comptroller-General. But the corporate audit division of the Comptroller-General's office is largely manned by professional auditors. The standards for audit by the Comptroller-General conform to those adopted by the American Institute of Accountants and his offices conduct audit in a manner comparable to any large independent public accounting organisation.[31] If the C & AG's audit is to serve a more useful purpose, the need would be to strengthen its staff by recruiting persons from the profession, and of giving them suitable training.[32] Refresher courses would also be necessary for the existing staff to acquaint them with the ins and outs of the operation of state commercial and industrial enterprises.

IV

A special feature of the government company audit requires to be noted here. Section 619(3) (*a*) of the Companies Act empowers the C & AG to direct the manner in which the Company's audit shall be conducted and to give instructions in regard to the audit of government companies.[33] In 1959, the government wrote to the C & AG to explore the possibility of giving direction under the law. But the C & AG took no action in the matter. Later, a Cabinet 'direction' was given to the C & AG to exercise his powers under section 619(3) (*a*)

[30]For instance, in the Indian Airlines Corporation, within a period of eight years, more than half a dozen important changes in the personnel of the C & AG staff, which is supposed to be permanently posted there, have taken place. The attempt of the C & AG, it is stated, is, as far as possible, to send the same audit party to an enterprise for a reasonably long period. But there are practical difficulties of synchronising the time of audit with the aeailability of the staff.

[31]*Report on Management Accounting*, submitted to the Council of the Institute of Chartered Accountants of India, New Delhi, 1958, pp. 128-129.

[32]At present the Indian Audit and Accounts Service probationers are provided with a ten-week practical training in some firms of chartered accountants.

[33]Sec. 619(3) (*a*) states: "The C & AG shall have power to direct the manner in which the company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) that is, on the advice of the C & AG of India, and to give such auditor instructions in regard to any matter relating to the performance of his functions as such,"

Eventually in March 1962, a direction was issued to all the auditors of government companies. The object is to make audit 'more fruitful' and "to provide useful data for a correct appreciation of the public enterprises' financial operations"[34]

By this direction, professional auditors, among other things have been asked to comment upon the system of accounts, internal control and costing. They are to calculate: (*i*) return on capital invested, (*ii*) ratio of closing stock to net sales, (*iii*) ratio of net profits to net sales, (*iv*) ratio of current assets to current liabi lities, and (*v*) ratio of cost of sales to net sales. The auditors would now give their opinion about the adequacy of financial provisions for the maintenance of plant and machinery, and about the effectiveness of the system of procurement and disposal of stores. The auditors are now also expected to look into the basis of fixing the selling prices of the products of the company, and how such prices compare with the cost of production.[35]

It is pertinent to ask: What remains for the C & AG's staff to do when the professional auditors carry out the above function, besides their own routine checks? It is argued that when these instructions will be put into effect, there may be no occasion for the C & AG to conduct a test or supplementary audit (which is said to be efficiency-cum-propriety audit) as contemplated by Section 619 (3) (*b*). In fact, a very senior official of the government disclosed,[36] that when the audit provisions in section 619 of the Companies Act were being drafted in consultation with the then C & AG, Shri Narhari Rao, it was never thought that the test or supplementary audit would be carried out in every case. It is, therefore, hoped that this power would be more of a formal nature and used sparingly. Shri Asok Chanda has suggested that an independent audit by the C & AG should be invoked "only where the normal audit reveals gross mismanagement."[37]

It has been suggested that if the C & AG voluntarily spares the government companies of his test or supplementary audit, particularly when professional auditors are appointed on his advice, and he directs their audit, it would relieve them from much inconvenience. This would not in any way mean abandonment of his audit control because under Section 619(4) he would still continue to comm ent upon their reports.[38]

[34]Audit Report (Civil), 1962, p. 114.

[35]For a complete list of aspects required to be attended to by the commercial auditors, as per the directions issued by the C & AG, referred to earlier, see *Annexure*.

[36]The officer concerned would prefer to remain anonymous.

[37]Asok Chanda, *Indian Administration*, Allen & Unwin, London, 1958, p. 202.

[38]Section 619 (4) reads: "The Auditor aforesaid (the auditor appointed on the advice of the C & AG) shall submit a copy of his audit report to the Comptroller and Auditor-General of India, who shall have the right to comment upon, or supplement, the audit report in such manner as he may think fit."

It is important to note that even at present his reports on government companies are under Section 619 (4) and not under Section 619 (3) (*b*)[39] and in majority of the cases no comments are made by him on the professional auditors' reports.[40]

V

In conclusion, dogmatism of any kind should be avoided about the C & AG's audit of public enterprises. All the world over, in varying measures there is a shift from autonomy to control over public enterprises and there is least doubt that C & AG's audit is an important instrument of this control. What is necessary, therefore, is not to do away with the C & AG's audit, but to regulate the form, content and approach of his audit so that it may be carried out with the least damage to business efficiency of public enterprises. An important change would be to lay much greater emphasis on the assessment of the results rather than on the meticulous implementation of the rules and procedures. As regards the failures or mistakes, the effort should be to suggest ways and means which will lead to the avoidance of abuse or irregularity in the future. Further, audit report should be oriented in a positive way so as to lead to purposive action.[41] It is necessary to allow greater discretion to the audit staff to decide the seriousness and implications of a default on the spot. This is only possible if the staff are competent, experienced, and sufficiently senior.

Pay scales of the staff entrusted with the audit of public enterprises would also have to be enhanced to recruit and retain sufficient number of persons of the requisite qualifications. Only a properly trained audit staff, imbued with the sense which pervades any well-organised, purpose-conscious, and efficient business organisation, could remove the stigma of 'fusy about frivolities' attached to government audit.

[39]Section 619 (3) (*b*) reads: "The Comptroller and Auditor-General of India shall have power to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf: and for the purposes of such audit, to require information or additional information to be furnished to any person or persons so authorised on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order, direct "

[40]Out of 36 reports or more important government companies for the year 1960-61, no comments appear in 24 cases. The usual pattern being: "I have to state that there are no comments upon or supplementary remarks to the auditor's report under sub-section 4 of section 619 of the Companies Act on the accounts of———Ltd. for the year ended———

[41]The latest audit report on civil appropriations presents a marked improvement over earlier reports. See chapter VIII, government commercial undertakings, Audit Report (Civil) 1962.

It is heartening to note that both the C & AG and the Director of Commercial Audit (officer directly in charge of public enterprises audit), whom the writer met, recognise the need for improvement in their department. They feel that such improvements are in the making. Their approach is definitely progressive and positive. There is appreciation of the point of view of public enterprises and a recognition of their own shortcomings. This progressive and enlightened outlook at the top is bound to be reflected at the lower levels in the course of time. □

The Role of Public Enterprises in the Indian Economy*

V.K.R.V. Rao

PUBLIC ENTERPRISES have been a significant part of the Indian economy even before the advent of independence. Thus, the book value of gross fixed assets owned by the central and state governments, together with the working capital in the enterprises concerned, amounted to about Rs. 875 crores at the end of 1947-48. By 1950-51, this had risen to over Rs. 1,200 crores, distributed mostly as under:

	(*Rs. crores*)
Railways	837
Irrigation works (including multi-purpose river valley projects)	230
Communications and broadcasting	53
Electricity undertakings	40
Industries	44
Civil Aviation	10
Ports	8
Central Tractor Organisation	5
TOTAL	1,236

In the same year, the value of productive capital assets in the private sector in organised industry, mining, plantations, transport and electricity undertakings was of the order of about Rs. 1,500 crores. Thus, even before we began our five year plans, the public sector was playing not a negligible role in Indian economy.

In this article, we are concerned with industrial and commercial enterprises. We, therefore, say nothing about the additions to public

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enterprise made by the nationalisation of the Imperial Bank of India and of life insurance business both of which were effected during the plan period. As far as organised industry and commerce were concerned, the public sector was playing a negligible role in 1950-51, the value of productive capital employed therein being only of the order of Rs. 44 crores. The First Plan saw an addition of Rs. 57 crores to the public sector in industry and commerce. The Second Plan marks the real commencement of the public sector in India in the industrial and commercial field. The addition that the second plan period saw to state capital in industry and commerce was of the order of Rs. 870 crores. The outlay targeted for the Third Plan was Rs. 1,520 crores; and according to newspaper reports, the corresponding figure for the fourth plan period is placed at Rs. 3,200 crores. If the Third Plan figures are realised and the Fourth Plan estimates prove true, then there would be at the end of the Fourth Plan period a public sector in organised industry and commerce which would have a capital base of no less than Rs. 5,691 crores as against which the value of productive capital in the private sector in the same field would only be Rs. 5,857 crores. In other words, within a period of 20 years from the inception of planning in this country, the public sector would be occupying a position in industry and commerce that would account for well-nigh half of the entire field as against a proportion of 2.9 per cent with which we began in 1950-51. When the composition of the public sector investment is taken into account, it would be seen that the public sector would occupy a commanding position as far as basic industries and capital goods industries are concerned. There can, therefore, be no doubt about the importance of the role of public enterprises in the Indian economy.

DISCONCENTRATION OF ECONOMIC POWER

This vast extension of public enterprises in Indian economy has not come about fortuitously. Behind it is planned development and behind this planned development there is a social and economic philosophy. This philosophy has been spelt out in the three plan reports issued so far as also in the Government's Industrial Policy Resolutions of 1948 and 1956. Broadly speaking, the economic objective behind this extension is to help in building up the economy by undertaking enterprises which are basic from the point of view of economic growth and which, nevertheless, either by virtue of the size of capital involved or other reasons were not likely to be taken up by the private sector. Thus, the First Plan document points out: "The scope and need for development are so great that it is best for the public sector to develop those industries in which private enterprise is unable or unwilling to put up the resources required and run the risks involved." The Second Plan document went a little further and stated: "The public sector has to

expand rapidly. It has not only to initiate developments which the private sector is either unwilling or unable to undertake; it has to play the dominant role in shaping the entire pattern of investments in the economy, whether it makes investments directly or whether these are made by the private sector." Elaborating the field which should be taken up by the public sector, the Second Plan document continues: "The use of modern technology requires large scale production and a unified control and allocation of resources in certain major lines of activity. These include exploitation of minerals and basic and capital goods industries which are major determinants of the rate of growth of the economy. The responsibility for new developments in these field must be undertaken in the main by the state and the existing units have also to fall in line with the emerging pattern."

There is also a major social objective underlying the philosophy behind this planned extension of the public sector. The acceptance by government of the goal of a socialist pattern of society and the Industrial Policy Resolution of 1956 which followed this acceptance emphasised the social considerations behind the extension of the public sector. Thus, the Industrial Policy Resolution of 1956 stated: "The adoption of the socialist pattern of society as a national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investments on a scale which only the state, in present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area." The Second Plan document also stressed the importance of using the public sector as an instrument for preventing concentration of economic power. Thus, it is stated in the document: "Public ownership, partial or complete, and public control or participation in management are specially required in those fields in which technological considerations tend towards concentration of economic power and wealth." The Third Plan document carried this argument further and made it more specific and categorical. Thus, it is stated in this document: "As a decisive instrument which the state can employ in preventing concentration of economic power and growth of monopolistic tendencies, the rapid expansion of the public sector serves a two-fold purpose. It helps to remove certain basic deficiencies in the economic structure and at the same time it reduces the scope for accumulation of wealth and large incomes in private hands.... As the relative share of the public sector increases, its role in economic growth will become even more strategic and the state will be in a still stronger position to determine the character and functioning of the economy as a whole." It will be seen, therefore, that behind the planned

extension of the public sector, there is an economic argument of speeding up growth and at the same time guiding the private sector in the same direction. Simultaneously, there is behind it the social argument of preventing concentration of wealth and income in private hands and giving the state a commanding position in determining the character and functioning of the economy as a whole in order that it may march towards the eventual establishment of a socialist society.

CATEGORISATION AND ROLE ENTRUSTED

The concrete operation of this policy was determined first by the Industrial Policy Resolution of 1948 and subsequently by the Industrial Policy Resolution of 1956. In terms of the first resolution, the principle of government ownership and control was accepted in regard to a segment of the economy comprising arms and ammunition, atomic energy and railways. This resolution also stated that in regard to certain key industries like coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph and wireless apparatus, etc., the state is to be responsible for further expansion except to the extent it considers the cooperation of private enterprise necessary for the purpose. In the rest of the industrial field, the initiative for development and the responsibility for management was to rest on private enterprise. Government, however, reserved the right to acquire any undertaking in the public interest and to intervene in cases where the conduct of industry under private enterprise is not satisfactory. The Industrial Policy Resolution of 1956 proceeds further and classifies industries into three categories*, having regard to the part which the state would play in each of them. The first category shown in schedule 'A' consists of industries the future development of which will be the exclusive responsibility of the state. In the second category shown in schedule 'B' are industries which will be progressively state-owned and in which therefore the state will generally take the initiative for establishing new undertakings but in which private enterprise will also be expected to supplement the effort of the state. The third category comprises all the remaining industries, the further development of which will, in general, be left to the initiative and enterprise of the private sector.

It must be pointed out that the Resolutions themselves as also the plan documents made it clear that the role of the public sector was not to be interpreted rigidly in terms of these categories. Thus, even in the industries listed in schedule 'A', the expansion of existing private-owned units was not precluded, while the state was also free to secure the cooperation of private enterprise in the establishment of new units

*The industries listed in Schedules 'A' and 'B' of this Resolution are given in Appendix 'A' to this article.

when the national interest so required. Similarly, while in schedule 'B' the state is expected to enter progressively and enlarge its operation, private enterprise was also to have the opportunity to develop either on its own or with state participation. In the case of industries which constituted the third category and which were in general, left to the initiative and enterprise of the private sector, it was open to the state to start any industry if it found it expedient to do so. The Second Plan document stated: "The prime consideration determining state policy covering the whole industrial field is promotion of rapid development in keeping with the overall objectives defined. The public sector has to grow—and rapidly—and the private sector has to conform to the requirements of the plan. There is necessarily to be 'a great deal of dovetailing' between the two sectors and it is recognised that the private sector has to be given the opportunity and facilities to function effectively within the field allotted to it. It is within the framework of this new industrial policy resolution that rapid industrialisation has to be carried through in the coming years." This emphasis on taking a coordinated view of the private and public sector industries and the attitude of flexibility in the operation of the industrial policy resolution was re-emphasised in the Third Plan documents. I quote:

> The expansion of industry will continue to be governed by the Industrial Policy Resolution of April, 1956. As in the Second Plan the roles of the public and private sectors are conceived of as supplementary and complementary to one another. For example, in the case of nitrogenous fertilizers where the public sector has already assumed a dominant role, it is envisaged that during the Third Plan the private sector will enter this field in a bigger way than in the past and supplement the efforts of the public sector. In the case of pig iron, the policy has been relaxed to allow the establishment of plants in the private sector with a maximum capacity of 100,000 tons per year as compared to units of 15,000 tons permitted so far. Programmes for the manufacture of dyestuffs, plastics and drugs in the private sector will be largely complementary to the programme for the manufacture of primary aromatic compounds as by-products at the steel works and of organic intermediates to be undertaken in the public sector. Similarly, whereas the manufacture of bulk drugs will be organised in a big way in the public sector, the further processing of bulk drugs will also be undertaken in the private sector.

The latest position in regard to the public sector in industrial and commercial undertakings is available for the year 1962-63. At the

end of this year, the total investment in public enterprises in industry and commerce totalled Rs. 1,372 crores. This total investment was distributed as follows:

	1962-63	
	Amount (Rs. in crores)	*Percentage*
(*i*) Undertakings under construction	274.8	20.03
(*ii*) Running Concerns—Hindustan Steel Ltd.	724.1	52.78
(*iii*) Running Concerns—Other than Hindustan Steel Ltd.	313.7	22.86
(*iv*) Promotional and Developmental Undertakings	59.4	4.33
TOTAL	1372.0	100.00

It is important to make this classification of four categories as formulated in the foregoing table, if one wants to take an objective and intelligent view of the profitability of public enterprises in India.

The first category, which accounts for a total capital of Rs. 274.8 crores, obviously cannot be expected to give any yield as it relates to undertakings which are still under construction. Given below is a list of these undertakings:

		Year of commencement
1.	Heavy Electricals (India) Ltd.	1956
2.	Heavy Engineering Corporation Ltd.	1958
3.	Hindustan Organic Chemicals Ltd.	1960
4.	Hindustan Photo Films Manufacturing Co. Ltd.	1960
5.	Hindustan Teleprinters Ltd.	1960
6.	Indian Drugs and Pharmaceuticals Ltd.	1961
7.	Indian Refineries Ltd.	1958
8.	National Minerals Development Corporation Ltd.	1958
9.	Neyveli Lignite Corporation Ltd.	1956
10.	Pyrites & Chemicals Development Co. Ltd.	1960

The investment on these undertakings stood at Rs. 275 crores at the end of the year and eventually is expected to reach about Rs. 650 crores, excluding about Rs. 100 crores on township planned so far in connection with these projects.

The second category, *viz.*, the Hindustan Steel Ltd., is a class by itself, partly because the investment made therein (Rs. 724 crores) represents about 53 per cent of the overall investment in organised industry and commerce and partly because alongside with the operation of the one million tonne stage in the three plants, huge expansion programmes and the establishment of alloy steels plant (estimated to cost Rs. 400 crores) are in the process of implementation. Obviously, therefore, the results of the working of this undertaking cannot be merged with those of the concerns included in category (*iii*) which are in full and commercial operation. The cumulative loss sustained by the Hindustan Steel Ltd. as the close of the year 1962-63 amounted to Rs. 61.6 crores. When considering this figure, it must be remembered that it is arrived at after making provision for full payment of Rs. 17.5 crores due to government in 1962-63 on capital loans advanced to the concern. The gross surplus before providing for depreciation and interest due to government rose from a figure Rs. 19.5 crores in 1961-62 to Rs. 23.9 crores in 1962-63. There can be no doubt that if this trend continues, it will not be long before Hindustan Steel Ltd. will be able to have a gross surplus that would meet both depreciation and interest charges, after which it will not be long before it begins to give a net surplus and therefore a dividend on its equity capital.

In considering the time that Hindustan Steel Ltd. are taking to become profitable in the commercial sense, we must remember the long period of gestation involved as also its continuing expansion programme. Above all, if we want to be objective, we must compare the time taken by the Tata Iron & Steel Company to start giving dividends on its equity capital. If that is done, it will be seen that the record of the public sector in the iron and steel industry is by no means unfavourable as compared to the performances of the private sector in the same field.

It is the third category, namely, the running concerns other than the Hindustan Steel Ltd. which can be regarded as public enterprises in the industrial and commercial field which either have come of age or are more or less reaching that position. These concerns number 29 and accounted for a total investment of Rs. 313.7 crores. By 1962-63 these concerns had accumulated a reserve of Rs. 43 crores, are regularly paying interest on the loans received from government, have made a tax provision for Rs. 4.7 crores and have declared a dividend of 7.6 per cent on their paid-up capital. Their net profit as percentage of net worth amounted to 6.7 per cent while their gross profit as percentage of capital employed amounted to 7.8 per cent. The rapidity of the progress which has been made during 1962-63 as compared to 1961-62 can be seen from the fact that gross profits during 1962-63 amounted to Rs. 24.7 crores as against a corresponding figure of Rs. 14.7 crores in

the previous year. Similarly, the net profit as percentage of paid-up capital went up from 4.5 to 7.6 per cent, net profit on net worth from 4.1 to 6.7 per cent and gross profit as percentage of capital employed from 5.2 to 7.8 per cent.

No one who takes an objective view can fail to ignore this trend and the rising movement towards profitability of public enterprises that it shows. Even in absolute terms, if we compare this performance with that of the private sector on the basis of a Reserve Bank Survey of 1,333 selected companies with total paid-up capital of Rs. 721.4 crores, a net worth of Rs. 1,217 crores and gross capital of Rs. 2,627 crores, we find that the figures of gross profits as percentage of total capital employed was 10.1, while net profits as percentage of net worth was 9 per cent. The difference between the rates of gross profits as percentage of total capital employed and net profits as percentage of net worth are not significantly higher than those in the public Sector. Such difference, as there is, can be more than explained by the long period during which the concerns in the private sector have been operating, as also the more profitable nature of the commodities they are engaged in producing. It is also interesting to note that wheres gross profit as percentage of total capital employed in running concerns rose only marginally from 10 per cent to 10.1 per cent between 1961-62 and 1962-63, the corresponding figures for the running concerns in the public sector show a rise from 5.2 to 7.8 per cent. Similarly, while net profits as percentage of net worth have actually declined in the case of private sector from 10 per cent to 9 per cent during these two years, the corresponding figures for the public sector enterprises show a rise from 4.1 to 6.7 per cent. In the face of these facts, it is really surprising to hear so much uninformed but nevertheless curiously emphatic assertions made by interested parties about the non-profitability of public sector enterprises and their allegedly significantly inferior position in economic terms as compared to private enterprises.

Appendix B (i) and (ii) to this article gives relevant figures regarding the running concerns in the public sector and the profitability ratios in the private sector as estimated by the Reserve Bank Survey of 1,333 selected joint stock companies in the private sector.

As regards the fourth category, namely, promotional and developmental undertakings, it does not, by definition, lend itself to the criteria of profitability as in the case of the other public sector undertakings in the industrial and commercial field. The investment in these undertakings was Rs. 59.4 crores at the end of 1962-63 and they numbered 9, as listed below:

1. Central Warehousing Corporation.
2. Export Risks Insurance Corporation Ltd.

(Renamed Export Credit and Guarantee Corporation Ltd.)
3. Handicrafts and Handloom Exports Corporation of India Ltd.
4. National Industrial Development Corporation Ltd.
5. National Research Development Corporation of India.
6. Oil and Natual Gas Commission.
7. National Small Industries Corporation Ltd.
8. Rehabilitation Housing Corporation Ltd.
9. Rehabilitation Industries Corporation Ltd.

Even in their case, it is interesting to note that their income and expenditure are practically in balance, while a reserve of Rs. 107 lakhs have been built up since their inception.

MANAGEMENT AND ACCOUNTABILITY OF THE PUBLIC SECTOR

While it is true that the record of the public sector does not compare unfavourable with that in the private sector, there are certain problems facing the public sector enterprises which have to be solved if they are effectively to play the role envisaged for them in the planned development of our economy towards the establishment of a socialist society. The first point to emphasise, though perhaps the need for reiterating this emphasis is much less today than it was in 1956 when I first wrote on the subject, is that contrary to some popular notions on the subject, profits have an important place in a socialist society. The difference between the economic price and the social price would be what may be called planned profit, and this would largely correspond to the excise duties and sales tax and other indirect taxes that are imposed in a capitalist society, these planned profits being no more than a way of mobilising resources and making them available to the community for purposes both of investment and maintenance expenditure.

Profits also have another important role to play insofar as they relate to the economic price itself. The economic price fixed at any particular moment of time is obviously based on the capital, technique, and productivity of the given base period when this price is fixed; any improvement in productivity is bound to lead to a decrease in the cost of production, and, in turn, this would lead to the emergence of a surpuls within the economic price itself and that would be a surpuls which will represent a measure of the nation's increase in productivity. This surpuls would not be the result of the policies laid down at national level as in the case of difference between the economic price and the social price. On the contrary, it would represent the result of the motivations and efforts of a large number of persons engaged in productive activity. Hence the importance of arranging for proper incentives to stimulate the creation of this kind of surplus. That is the

reason why in socialist societies, now-a-days, individual enterprises are permitted to retain a larger share of such surpulses as they may create by an increase in productivity, this larger share to be used by them partly for increasing individual incomes of those engaged in the enterprises and partly for giving an opportunity to the enterprises in question to build up the financial resources needed for following their own independent investment policies.

The second important problem that faces the public sector is the question of management. There is no doubt that management both at the top level as well as middle levels forms the most important instrument for the development of the economy. The growth of public enterprises cannot be determined merely by resolutions or by centrally formulated rules and regulations or even by merely stepping up the quantum of public investment. A great deal has to be left to the discretion, intelligence, imagination, confidence and initiative of the person or persons who are in charge of decision-making in individual enterprises. I know that this problem of reconciling managerial initiative and autonomy with ministerial accountability to Parliament is a difficult and complex problem to which we have not yet succeeded in finding a solution. It is perhaps inevitable that managers in the public sector will always have some headaches as compared to their compeers in the private sector because the former are answerable to ministers who in turn are responsible to Parliament, to the press and to public opinion. It is, therefore, inevitable that some handicaps and extra loads will fall on the shoulders of managers of public enterprises. At the same time, we cannot let the bugbear of public accountability to be so operated as to kill enthusiasm and initiative in individual public enterprises and prevent them from growing to the levels of output and efficiency that they must rise to, if they are to play a significant role in the building of the Indian economy. Even under the existing framework, I believe, there are a great number of rules and procedures which prevent individual managements from exercising their full decision-making powers. Surely, it should be possible to amend and modify, if not eliminate, some of these economically unjustified and psychological irritating rules and procedures without affecting the basic rationale behind public accountability.

It is, I think, also necessary to take a fresh and comprehensive view of this problem of reconciliation between central control necessitated by public accountability and individual autonomy necessitated by the needs of growth and increasing profitability. As I have already stated, public sector enterprises in industry and commerce would by the end of the Fourth Plan be responsible for investment to the tune of more than Rs. 5,691 crores and it may well be that even this vast figure might find itself more than doubled by the time we come to the end of the

Fifth Plan. Public enterprises are thus going to constitute a most significant sector of the Indian economy and will indeed occupy a commanding position as far as organised industry and commerce are concerned. It is, therefore, absolutely essential that considerations of efficiency, profitability, and growth must all be given their proper place in addition to the factor of public accountability, which of course cannot be ignored in a democratic society like ours. I would, therefore, plead most earnestly for the gathering together of all experiences in this field; and for doing this, it is on the Soviet Union rather on the western countries that we will have to fall back upon. After gathering and analysing all available material in regard to the ways and means by which this problem of reconciliation is attempted to be solved in the Soviet Union and also the manner in which individual giant concerns in the western capitalist countries have attempted to solve this problem of reconciliation between their centralised control and the growth and profitability of their branches, subsidiaries, and allied units, we should then of course have to do our own thinking in the context of Indian conditions and evolve a policy that will attempt reconciliation to the maximum possible extent between public accountability and individual enterprise initative in the public sector in industry and commerce in this country. I believe that this is a must which cannot be ignored if we want public enterprises in India to play the role that has been envisaged for them in our policy resolutions and in our plan documents.

PHILOSOPHY OF DEMOCRATIC SOCIALISM

Finally, I would like to re-emphasise the social considerations and the philosophy underlying the extension we are envisaging of public enterprises in India. While purely economic considerations are most important, public enterprises are not just business concerns in the sense in which it is understood by private enterprises. There is a certain philosophy behind the extension of our public sector. This philosophy is, as is well known, the philosophy of democratic socialism. We are wanting to use the public sector as a major instrument for bringing into existence and operating a democratic socialist society in our country. In fact, the two major instruments envisaged for establishing a socialist society in our country, are, on the one hand, a very large increase in the facilities in social services and education and equalisation of opportunities and on the other hand, a very large extension of the public sector. The strategy which we employ for bringing into existence a socialist democracy through constitutional methods and consistently with preserving the freedoms associated with political democracy is through the extension of the public sector.

It is high time, therefore, that those concerned with both the esta-

blishment and management of public enterprises in this country should consider this aspect of the matter. Apart from the need for public sector enterprises observing all the labour laws and functioning as model employers to the extent that our resources and the current stage in our economic development permit, it is most important that the worker in the public sector enterprises should feel much more identified with his work than one who works in private sector enterprises. It is essential that this identification and sense of participation is established between workers, management, and government in our public sector enterprises. If public sector enterprises are to fulfil the philosophy underlying their establishment, workers in these enterprises must be more efficient than in the private sector and they must be much more identified with the management than in the private sector. In a way, both these desiderata are interlinked. It is high time that we set about examining in detail how to establish a sense of identification and participation between workers, management and government in the public sector. Speeches and exhortations will not bring about the desired results. Deliberately selected and intelligent techniques have to be employed, covering the entire field of incentives, psychological stimulii, built-in-institutions for cooperation and participation, etc.

CONCLUSION

To conclude, public sector enterprises have come to stay in India. They are also growing in size and stature and increasing their profitability. They are certainly going to become more and more important not only in the growth and functioning of the Indian economy but also in shaping the future of the Indian society. I regard public enterprises as the army of the constitutional advance of this country into a socialist democracy. To my mind they constitute the pioneers. They are the sappers and miners of our socialist army. It is they who can help government in concrete terms in taking the country forward to the establishment of democratic socialism. If my view is accepted, then I would urge it is high time we started examining the subject of public enterprises in the Indian economy from this angle, initiate studies, collect comparative data, make enquiries, garner relevant experience from abroad, and finally chalk out a concrete and detailed plan of policy and operation for public sector enterprises that will help them to fulfil the social and economic philosophy behind their establishment and expansion.

Appendix A

INDUSTRIES LISTED IN SCHEDULES 'A' AND 'B' OF THE INDUSTRIAL POLICY RESOLUTION, 1956

SCHEDULE A

1. Arms and ammunition and allied items of defence equipment.
2. Atomic energy.
3. Iron and steel.
4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
8. Mineral oils.
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
10. Mining and processing of copper, lead, zinc, tin, molydbenum and wolfram.
11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
12. Aircraft.
13. Air transport.
14. Railway transport.
15. Shipbuilding.
16. Telephones and telephone cables, telegraphs and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

SCHEDULE B

1. All other minerals except 'minor minerals' as defined in Section 3 of the Minerals Concession Rules, 1949.
2. Aluminium and other non-ferrous metals not included in Schedule 'A'.
3. Machine tools.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilisers.
8. Synthetic rubber.
9. Carbonisation of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport,

Appendix B(i)

PROFITABILITY OF RUNNING CONCERNS IN THE PUBLIC SECTOR

	Gross profits as percentage of capital employed		*Net profits as percentage of net worth*	
	1961-62	*1962-63*	*1961-62*	*1962-63*
(1)	(2)	(3)	(4)	(5)
FOR ALL UNDERTAKINGS	5.2	7.8	4.1	6.7
Engineering				
Hindustan Machine Tools Ltd.	14.0	21.4	17.7	17.9
Hindustan Cables Ltd.	8.9	12.9	6.9	10.6
Indian Telephone Industries Ltd.	10.7	13.8	5.3	8.0
Bharat Electronics Ltd.	4.7	7.2	5.0	8.4
National Instruments Ltd.	2.0	11.1	1.4	4.8
Hindustan Aircraft Ltd.	3.7	5.2	3.8	4.8
Praga Tools Corporation Ltd.	L	1.9	L	0.2
Nahan Foundry Ltd.	3.5	L	1.0	L
Chemicals				
Hindustan Antibiotics Ltd.	27.8	22.5	13.2	11.0
Hindustan Insecticides Ltd.	15.6	23.2	9.2	8.9
Hindustan Salts Ltd.	9.9	9.9	7.3	7.3
Fertiliser Corporation of India Ltd.	1.2	3.7	0.3	3.1
Mining and Minerals				
Indian Rare Earths Ltd.	4.5	11.2	4.4	10.3
Travancore Minerals Ltd.	18.8	24.2	9.1	4.8
National Coal Dev. Copn. Ltd.	0.8	3.3	L	3.3
Building and Repairing Ships				
Gardenreach Workshops Ltd.	3.4	7.0	2.4	7.1
Mazagon Dock Ltd.	7.9	11.8	10.2	6.7
Hindustan Shipyard Ltd.	0.5	0.1	0.1	0.1
Aviation and Shipping				
Moghul Line Ltd.	17.9	17.5	5.3	8.4
Air India	3.0	8.3	4.4	14.4

(Continued)

(1)	(2)	(3)	(4)	(5)
Indian Airlines Corpn.	0.6	3.6	0.9	5.5
Shipping Corpn. of India Ltd.	5.3	6.3	4.1	5.0
Miscellaneous				
State Trading Corpn. of India Ltd.	34.3	42.9	22.7	13.9
Indian Oil Co. Ltd.	L	11.8	L	16.5
National Projects Construction Corporation Ltd.	13.4	8.2	5.4	13.0
National Newsprint & Paper Mills Ltd.	9.0	10.0	10.1	10.6
Ashoka Hotels Ltd.	14.8	17.5	16.3	7.8
Hindustan Housing Factory Ltd.	14.2	6.2	9.9	4.2
National Buildings Construction Corpn. Ltd.	L	L	L	L

'Gross profit' represents the excess of income over expenditure after providing for depreciation but before providing for interest, taxes and allocations to reserves.

'Net worth' represents the paid-up capital plus reserves less intangible assets.

'Capital employed' represents gross block less, depreciation plus working capital.

L=Loss.

Appendix B(ii)

PROFITABILITY OF RUNNING CONCERNS IN THE PRIVATE SECTORS

Industry	*No. of Cos.*	*Gross profits as percentage of total capital employed*		*Profits after tax as percentage of net worth*	
		1961-62	*1962-63*	*1961-62*	*1962-63*
Tea plantations	147	9.4	10.7	6.0	5.9
Coffee plantations	15	6.4	12.2	4.4	7.5
Rubber plantations	21	14.0	13.3	7.3	8.0
Coal mining	47	8.3	9.5	5.7	8.1
Edible, vegetable and hydrogenated oils	16	7.4	7.3	6.4	7.9
Sugar	79	7.4	7.6	7.4	3.5
Tobacco	5	11.7	14.2	6.9	7.7
Cotton textiles	262	12.9	7.9	13.1	5.8
Jute textiles	58	3.4	16.4	0.2	19.5
Silk and rayon textiles	10	13.2	9.7	17.1	11.1
Woollen textiles	7	20.1	17.5	19.9	17.4
Iron and steel	2	8.0	9.6	10.2	12.8
Non-ferrous metals	7	10.9	10.0	9.0	9.9
Transport equipment	32	10.1	10.6	11.0	9.5
Electrical machinery, apparatus and appliances, etc.	45	11.6	14.1	13.4	11.5
Machinery (other than transport and electrical)	52	10.4	11.0	12.8	10.7
Foundries and engineering workshops	25	9.3	10.3	8.7	9.3
Ferrous/non-ferrous metal products	24	11.1	11.2	9.9	9.8
Basic industrial chemicals	35	12.3	10.5	13.1	11.4
Medicines and pharmaceutical preparations	33	13.5	13.7	15.9	12.0
Other chemical products	21	11.2	13.4	10.3	9.8
Matches	2	16.2	17.6	11.7	13.4
Mineral oils	3	14.1	14.3	10.8	7.1
Cement	15	8.7	11.4	7.9	9.4
Paper and paper products	21	8.4	8.3	8.0	7.1
Electricity generation and supply	32	8.0	7.6	8.3	7.1
Trading	72	9.2	8.7	10.4	8.6
Shipping	14	0.8	4.9	1.9	3.0
Total (including others)	1,333	10.0	10.1	10.0	9.0

Evolving Pattern in the Organisation and Administration of Public Enterprises*

H.K. Paranjape

THE GOVERNMENT of India inherited a public sector of significant magnitude at the time of Independence. The railways the posts and telegraphs (including the telephone systems), the all India radio, the Hindustan Aircraft and a number of ordnance factories were already owned and managed by the Government of India in 1947. As a result of the policies adopted by the Government of India in the second world war period, projects for the production of locomotives, telephones and fertilisers had been taken up and some progress had been made by 1947 regarding their execution.

As a result of the increased emphasis on economic development after independence and the acceptance of the idea of direct state participation in the development process, a number of new projects in the irrigation, power, public utilities and manufacturing fields were taken up by government in the period immediately after Independence. This process was further accentuated with the setting up of the planning Commission and formulation of the First Five Year Plan. The adoption by government in 1954 of "a socialistic pattern of society" as the objective of its economic policy, and the increased emphasis on industrialisation in the Second Five Year Plan resulted in an even larger number of projects for developing new industries being established in the public sector. Thus, public sector units have been established on an increasing scale in industries like steel, heavy machine building, metallurgy, non-ferrous metals, coal mines, telephones, cables and teleprinters, fertilisers, heavy electricals, chemicals, drugs and pharmaceuticals, insecticides, electronics and similar other new and basic industries. The government also took over some private sector units which were

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vital for the country's economic development but which could not progress sufficiently under private auspices. Such industries included shipbuilding and air transport. Government also took over some important financial institutions for the purpose of more effectively pursuing its economic policy, the most important amongst these being the Reserve Bank of India, the Imperial Bank of India and life insurance companies. It also set up a number of financial institutions for providing development finance to different sectors of the economy a state trading organisation (the State Trading Corporation) for the purpose mainly of carrying on trade with communist countries and a Shipping Corporation for the purpose of increasing the tonnage for carrying India's ocean borne trade.

For effectively participating in the vast construction activities that were being undertaken in the country as a result of the development plans, two construction organisations—the National Projects Construction Corporation and the National Buildings Construction Corporation—were also set up. As a result of all these developments, enterprises owned and controlled by the Government of India have come to constitute a large and significant part of the national economy.

FORM OF ORGANISATION

In the years immediately after Independence, there seemed to be a growing acceptance of the 'public corporation' as the appropriate form of organisation for public sector undertakings. The Reserve Bank, the Damodar Valley Corporation, the Industrial Finance Corporation and the Air Corporations are examples of the policy in this period. However, even at that time, there was no inclination to establish corporations for managing concerns which were already working as departments of government. The Indian Railway Enquiry Committee (1974) had suggested that the question of establishing a public corporation for the management of the railways should be taken up after a few years; but the government was not very much inclined to do so. The same was true about the All India Radio, the Posts and Telegraphs and the defence production units. It was felt that where departmental organisations had been functioning for long, it was not necessary to convert their form to a corporate one. At the most, a special departmental set-up may be arranged to facilitate their smooth functioning. The Railway Board was already a separate organisation for managing the railways with almost full powers of management. Similar organisations were set up later for the management of the P & T and the defence production units. No changeover to the corporate pattern was considered necessary.

As the government began to take up projects in the mining and manufacturing field, there were some misgivings about whether the

'public corporation' was the most suitable form of organisation for these. It was felt that with the large number of units that would be set up, it would be difficult to find parliamentary time to pass the necessary legislation. Moreover, a statutory corporation would not be a flexible enough form of organisation when the government was entering this field newly and where many changes may be found to be necessary as experience was gained. The public corporation form had been adopted for public utilities and major financial institutions, especially where some degree of monopoly was inevitable. But it was felt that this was not necessary in the case of mining and manufacturing units. The troublesome problems that arose in the case of the Damodar Valley Corporation and, to some extent, the Industrial Finance Corporation[1] might also have influenced government's thinking. It is notable that since 1951-52 the form of the statutory corporation has been adopted only in a few of the new public undertakings, *viz.*, the State Bank of India, the Life Insurance Corporation and the Central Warehousing Corporation.

The company form of organisation was already in use due to historical reasons in the case of a few state undertakings like Hindustan Aircraft. As government began to think of a suitable form of organisation for the new and rapidly expanding undertakings in the mining and manufacturing fields, this form of organisation seems to have appealed to the policy-makers for a number of reasons. The form was already well-known, it had been in existence in the private sector for long, its legal terminology, etc., was already well-defined and it was not necessary to build up a new system which could lead to controversies and possibly various legal difficulties. Moreover, with government as the sole or predominant shareholder, the form offered sufficient flexibility for bringing about any changes in organisation that might be necessary as experience was gained. The possibility of a conflict between the top management and the government which, as the D.V.C.'s experience indicated, could be quite significant and embarrassing, could be minimised in the company form. Where partnership with private business concerns, Indian or foreign, was found to be necessary, this could be arranged and also when necessary modified more conveniently in the company form. For all these reasons, the government seems to have decided to adopt the company form of organisation for the bulk of the newly set up undertakings. Sindri Fertilisers and Indian Telephone Industries were the earliest to be set up under this form of organisation and the number of enterprises set up under government-owned companies has been rapidly increasing since then. Thus by the end of 1962, while the

[1]See Reports of the Damodar Valley Corporation Enquiry Committee (1952-53(and the Industrial Finance Corporation Enquiry Committee (1952).

number of departmental undertakings had remained constant at four (except that the number and complexity of defence production units had increased) and there were only eight statutory corporations, all in the finance and public utilities field, the number of companies exclusively or principally owned and managed by the Government of India had increased beyond 50.

The company form of organisation was criticised on various grounds by Members of Parliament, by the Estimates Committee and by the Comptroller and Auditor-General. The last authority even went to the extent of calling this "a fraud on the constitution". In addition to the doctrinaire approach that the 'public corporation' was the only proper form of organising state undertakings, the main point of this criticism was that there was not enough accountability to parliament of enterprises organised in this way. There was some truth in this criticism and a special provision was included in the revised Campanies Act (1956) to take care of this problem. As a result of this, this form of organisation is no longer subjected to much criticism and it seems now to be generally accepted that it serves the purpose well enough. The government's own view on this subject was recently stated as follows: "Government consider that the form of management of the undertakings should be determined by the requirements of each case. Accordingly, from the point of view of flexibility of operations, the company form of management would be preferable. In some instances, it would be necessary to form statutory corporations while in a few others, for various reasons, it would be desirable to run the undertakings as departmental organisations".[2]

PATTERNS OF OWNERSHIP

In the large majority of cases, the Government of India is the sole owner of the enterprises that have been set up under its auspices. There are a few cases, however, where other parties have been taken as partners.

In some cases, some state governments are partners in the enterprises. The most significant example of such a partnership is the DVC. Even though under the DVC. Act the Government of India had the main controlling authority and responsibility for the DVC, the governments of West Bengal and Bihar were made partners of the Government of India in this undertaking. This was done because it was felt that as the developments to be carried out by the DVC were in the regions covered by these two states, they should be associated with this project.

[2]Government of India, Ministry of Commerce and Industry: *Decisions of the Government of India on the Recommendations Contained in the Report of the Krishna Menon Committee and other Reports and Studies on the Running of Public Sector Undertakings*, New Delhi, 1961,

In practice, however, this association seems to have proved to be a disadvantage in the unified management and control of the DVC. In the case of a few government companies, some state governments have been associated as minority shareholders. This is sometimes due to purely historical reasons—as in Hindustan Aircraft where the Government of Mysore was a partner in the undertaking from the time of its inception as a private business venture, or in Singareni Colleries and Praga Tools where the enterprises were originally state government concerns but could not develop without large scale financial participation by the Government of India. A few other cases however indicate certain possibilities which may be portents of future developments.

Till recently, the allotment of shares to the Government of Mysore in the Indian Telephone Industries, whose works are situated in that state, could be treated as a decision taken at a time when the policy implications of such a decision were not clearly thought out. Nothing of this kind has been done in the case of other major public sector projects. In 1956, however, in the case of Travancore Minerals Ltd.,.the State Governments of Kerala and Madras have been made partners and these two governments together hold 50 per cent of the share capital. There has been some public discussion about whether state governments will not press for the right to participate in the share capital of Central Government undertakings situated in their territories. If this happens, it can give rise to a host of problems regarding the management and efficient conduct of these undertakings. Even now considerable pressure is reported to be put by state governments for preference in employment for their people in the central undertakings situated in their territories. Such pressures may increase and may be more effective if state governments can become partners and therefore enjoy guaranteed representation on the board of directors. Moreover, when the works of an undertaking are situated in more than one state, as is increasingly happening in the case of major undertakings, all the states concerned will have to be accepted as partners and unified control and efficient management will suffer.

There are also some cases where private business concerns are accepted as partners in state undertakings. In some financial concerns, it is considered necessary to have certain private concerns as partners because the nature of the activity of the undertaking is such that it can be more effectively carried out under this system. When a financial concern serves both the public and the private sector, or especially the latter, it is thought worthwile to have representation of that sector on the managing board through such a partnership. Thus the share capital of the Industrial Finance Corporation, the State Bank of India and its subsidiaries and bodies like the Refinance Corporation for Industry has

been permitted to be partially contributed by private shareholders, institutional or individual.

In other cases, private parties continue as shareholders because of the fact that the project was originally undertaken in the private sector and the state had to come in because the private parties could not find enough capital to go on with the project. Hindustan Shipyard was one example of this (though later on, by mutual agreement, the government took over the shares of the private partner), others in this category being the National Newsprint and Paper Mills (where a state government was also one of the original sponsors and continues as a minority shareholder) and the Ashoka Hotel.

The third type in this category is represented by the Indian Telephone Industries. The foreign firm which collaborated in the setting up of this project was permitted to hold a small proportion of shares in the concern, the idea being that the firm would feel more interested in the success of the project if it was made a partner in the concern. Similarly, the foreign group which collaborated in the setting up of the Rourkela Steel Plant was also originally made a minority partner in the concern. But later on it was decided to terminate this arrangement. The balance of advantage did not lie in making the foreign firm a partner in all cases of collaboration and it would have been invidious to permit such an arrangement in some cases and not in others. Curiously enough, in the case of Hindustan Organic Chemicals Ltd., a government company registered in 1960, this idea seems to have been revived and, under the collaboration agreement, a small part of the share capital is being allocated to the foreign collaborating group in lieu of their fees for technical assistance, etc.

Another development in the pattern of ownership in state undertakings is the establishment of concerns which are subsidiaries of state undertakings. This pattern is to be found especially in respect of financial unertakings. The Reserve Bank, which is fully state-owned, holds majority shares in the State Bank of India which in turn holds majority shares in eight subsidiary banks. The Government of India, the Reserve Bank, the State Bank and the Life Insurance Corporation together hold a large part of the share capital of the Refinance Corporation for Industry. As a matter of fact, there was some fear in private business circles that the government's ownership of the Life Insurance Corporation, the largest single investor in equity capital in the country, would be used for backdoor nationalization. The government, however, seems to have decided not to use the L.I.C.'s investments for the purpose of obtaining control over private sector undertakings.

The idea of permitting a part of the share capital in state undertakings to be held by the public seems to have received some support in parliamentary and government circles a few years ago. A study group

set up by the Planning Commission was reported to have recommended that 25 per cent of the shares of a few government concerns, already well established had not engaged in monopolistic or semi-monopolistic fields, should be thrown open for public subscription. The main motive underlying the recommendation seems to have been to associate the general public as partners with the government in the management of these concerns, "in the bearing of risks and uncertainties and in the sharing of the toils and travails connected with expansion and development". However, the arguments that this effect is not likely to be of any significant character and that there are significant dangers involved in such a policy for unified control and management of the concerns seem to have prevailed and no such experiment has been tried by government.[3]

STRUCTURE OF THE PUBLIC SECTOR

In public sector undertakings, the controlling ministry is at the apex and the operational unit—the individual plant or the individual mine—at the bottom. Whether there are any intermediary organisations depends upon the nature of the undertaking and the overall policy of government about organisation.

The distribution of public undertakings amongst different ministries has to some extent been influenced by historical reasons. The Chittaranjan Locomotive Works, for example, was organised to meet the requirements of the Railways and was therefore made a part of the railway organisation. The telephone factory was organised for meeting the needs of the Posts and Telegaraphs Department and, therefore, it was placed under the Department of Communications which is in overall charge of the Posts and Telegraphs. Gradually the allotment of enterprises to different ministries came to be related to the overall functions of a ministry. All financial undertakings were put under the Ministry of Finance, the Damodar Valley Corporation and the National Projects, Construction Corporation were put under the Ministry of Irrigation and Power and most of the new manufacturing enterprises under the ministry which was looking after industries. In 1952 a new Ministry of Production was formed and quite a large number of the manufacturing enterprises in the public sector were put under its control. The Department of Steel was set up mainly for looking after the new public sector steel projects. In 1956, the Ministry of Production was abolished and most of the enterprises under its control were transferred to the Ministry of Commerce and Industry. A new Ministry of

[3]For a detailed discussion of this proposal see the present author's "Public Participation in the Capital of State Undertakings" in *A.I.C.C. Economic Review*, January 6, 1961, pp. 63-67; also see *Capital*, November 3, 1960, pp. 631-32.

Steel, Mines and Fuel was established with two departments—the Department of Steel and the Department of Mines and Fuel—under it. In 1962 there was a further reorganisation of ministries; a new Department of Heavy Industries was created and the more important of the public sector industrial projects were transferred to it. Thus the present organisation at the government level is that a number of indistries and departments control public sector undertakings, those controlling a large number being the Ministries of Finance, Defence, Industries and Mines and Fuel, the Departments of Steel, Heavy Industries, Transport and Communications, and of course the Ministry of Railways (Railway Board). Enterprises in the field of atomic energy have from the beginning been put under the charge of the Department of Atomic Energy. Unlike at the time when the Ministry of Production was in existence, now there is no ministry or department whose exclusive task it is to look after public sector undertakings in a particular field. The ministries and departments are allotted certain functions and they control private as well as public enterprises which come under their functional scope. The main exception to this arises in the case of some manufacturing and engineering enterprises which either because they are serving the needs of particular departments or undertakings under these departments or because of some other reasons, have been from their inception under these departments. Thus, not only the Air Corporations but also the Hindustan Shipyard is controlled by the Department of Transport; not only the P & T but also the telephone and tele-printer factories are controlled by the Department of Communications; and Hindustan Aircraft and Bharat Electronics are controlled by the Ministry of Defence.

There has been no organisation in the government which is specially given the authority and responsibility for looking after the common problems of public sector undertakings. At a time when the large bulk of enterprises were under the control of the Commerce and Industries Ministry, a Projects Coordination Committee had been set up under that Ministry for the purpose of ensuring coordinated policy-making in public undertakings. Representatives of related ministries and other public sector projects were also sometimes invited to attend the meetings of this committee. However, the experiment of this committee does not seem to have succeeded, only a few meetings being held between 1957, when the Committee was first organised, and 1961.

In 1961 the Ministry of Commerce and Industry was also given the task of coordinating the overall policies of public sector undertakings in non-financial matters. However, with the reorganisation of ministries in 1962 as explained above, this particular ministry lost the more important undertakings to the new Department of Heavy Industries and since then the Projects Coordination Committee as well as the general

coordination work seem to have been in abeyance. On the financial side, the coordination of policies is attempted to be ensured through the Project Coordination Section of the Cepartment of Expenditure in the Ministry of Finance. The fact that a few senior officers from this department sit on the boards of a number of undertakings further facilitates such coordination. The Ministry of Labour has sometimes attempted to bring about coordination in the labour policies of public undertakings through holding meetings of the representatives of concerned ministries and enterprises. There is however as yet no organisation in government which has the overall responsibility for examining the common overall problems of public sector undertakings and coordinating their policies.

One method of bringing about some coordination in the policies of closely related enterprises is to arrange some type of interlinking among them. In the financial enterprises this is done through the interlinking of capital holdings as explained earlier. We also find that the instrument of common directors is used to bring about a certain degree of interlinking. We have already mentioned the case of officers from the Finance Ministry who are directors of a number of enterprises. Similarly, some officers may be directors of a number of enterprises under the control of a particular ministry. There seems to be in some cases a deliberate policy of appointing common directors in the case of enterprises which lie in the same geographical or technical areas; for example, we have such interlinking of directors between Air India and the Indian Airlines Corporation, the Reserve Bank of India, the State Bank of India, and other financial enterprises, Hindustan Steel and the Heavy Engineering Corporation, and the Oil and Natural Gas Commission and other public undertakings in the petroleum field.

A more direct way of ensuring coordinated policy-making amongst units which work in the same technical area or which are in some other ways closely connected is of course to have a common top management for such units. This can be done through putting such units under one undertaking. In the earlier stages of the development of the public sector, the policy seems to have been to set up a separate organisation for each producing unit. Thus, after the establishment of Sindri Fertilisers and Chemicals, when it was decided to develop another fertiliser unit at Nangal, a new company was set up for managing it. But later on this policy underwent a change. All the three steel projects in the public sector were put under one company, the Hindustan Steel Ltd., all the fertiliser units (including that at Rourkela which was originally put under Hindustan Steel) under the Fertiliser Corporation of India and so on. The new units that are being set up for the production of machine tools are being up under the overall charge of Hindustan Machine Tools and those in the field of heavy electricals under Heavy Electricals. The Drugs and Pharmaceuticals, the Heavy Engineering

Corporation and the Shipping Corporation are other examples of this policy. It cannot however be said that this pattern of organisation is definitely established and accepted. While there has been from the beginning a discussion about the desirability of having only one corporation for internal as well as international air transport, the government did not and has not yet accepted this solution. The Hindustan Teleprinters being set up as an independent company, even though it lies broadly in the same field as the Indian Telephone Industries and is even controlled by the same ministry, is another indication of the hesitation in firmly adopting this kind of organisational pattern.

This hesitation is probably due to genuine doubts about the effectiveness of this pattern of organisation. The discussion in this respect in recent years has specially concentrated around the organisation of Hindustan Steel. There has been a view persistently coming up that the creation of an intermediary organisation between the controlling ministry and the individual plants is on balance not advantageous. It is said that effective control regarding most problems of higher management has been and will always be exercised by government, therefore, the headquarters organisation such as the Hindustan Steel management at Ranchi just proves to be an ineffective intermediary—almost a post-office—between the government and the plant management. It has, therefore, been sometimes suggested that the government should deal directly with the individual plants and that this middle organisation should be abolished. The government has not accepted this suggestion. It is interesting to note however that a decision has already been taken not to put the proposed steel plant at Bokaro under the management of Hindustan Steel. A separate company is going to be set up for that purpose. It is however, possible that this decision arises from the very special factors that affect the proposed project at Bokaro and is not necessarily an indication of the future policy of government about the pattern of organisation.

THE QUESTION OF AUTONOMY

Almost since the beginning of the post-Independence development of the public sector, the question of the autonomy that the managements of these undertakings should enjoy has aroused considerable discussion. In the case of the Damodar Valley Corporation the question became especially controversial because the Corporation's first board insisted on carrying on its work in an autonomous way as provided for in the Act while the controlling ministry and the Ministry of Finance seemed to hold a different view in the matter. The question again came to public attention as a result of the controversy that arose regarding certain investments made by the Life Insurance Corporation and the conclu-

sions which the Chagla Commission[4] stated in its enquiry report on this subject.

The question of autonomy seems to be raised many times on a somewhat fallacious understanding of the situation regarding public sector undertakings in other countries and specially in the U.K. Many persons had the impression, principally based on the nationalization statutes in the U.K., that the public undertakings there enjoyed virtually full autonomy except in matters which were formally reserved for government decisions. The material that has become available recently about the actual way in which the British public undertakings function, especially the reports of the Select Committee of the House of Commons on nationalised industries, quite clearly indicates that there is a great deal of indirect influence exercised by government in matters supposed to be purely within the jurisdiction of the undertakings. It is also sometimes overlooked in these discussions that in India we are attempting to build up a planned economy. Even private sector undertakings are subject to considerable controls by government. Public undertakings moreover are set up principally in fields that are vital to economic growth and the proper functioning of the economic system and they are, therefore, bound to be subject to greater regulation and control than private undertakings. As a matter of fact, one of the reasons why certain undertakings are nationalised or a decision is taken to reserve the development of certain industries for the public sector is that close control and regulation is considered necessary in their cases so that their development may take place in accordance with the requirements of public interest. Therefore, there can be no question of public undertakings in India enjoying 'full' autonomy, whatever that may be. Decisions on matters like location of new projects, investments, foreign collaboration, overall policy regarding salaries and wages, the composition of output, the use of surpluses, price policy and labour policy are bound to be reserved for the consideration of government. This is indicated by the power reserved to government under the public corporation statutes and the articles of association of government companies. As in most other countries, including the U.K., the government also has the power of giving directions in policy matters where these are thought to be necessary.

The real question is, therefore, not whether the government should exercise a significant degree of control over these undertakings or not; it is clear that in a public undertaking many of the functions that would be carried out by the board of directors in a public enterprise will have to be vested in government, especially in an economy which is increas-

[4]Report of the Commission of Enquiry into the affairs of the Life Insurance Corporation of India, 1958.

ingly planned. The relevant question is, once these broad policy decisions are taken by government, should the actual management of the enterprise be left entirely to the top management that is appointed for that purpose or should the government in one way or another also participate in this task. The approach accepted by the Government of India in practice seems to be that it is necessary for government to be associated even in the process of decision-making in the enterprise. It is not possible to distinguish clearly between broad policy decisions and management decisions; there is bound to be much overlapping between these, and therefore in order to ensure proper and smooth functioning it is much better to have a flexible approach in this matter. In pursuit of this policy, the government has developed a system of indirect control in addition to the formal controls and powers that the government has. The most important of such instruments was that in the board of directors appointed for carrying out the management of the enterprise, a number of government officials were included. Till recently in the case of the majority of boards, the secretary of the controlling ministry or another senior officer was appointed as chairman of the board; an officer of the Ministry of Finance was also included in the board. Moreover, the chairman as well as other directors, and especially the director from the Ministry of Finance, had the right to suggest that a matter that was being decided by the board should be reserved for obtaining the advice of government. This system could be relied upon to ensure that even in matters that were not formally reserved for government's decision making, the government's views would prevail. The effect of this system quite naturally varied from enterprise to enterprise.

The actual working of the board depended, as it is bound to depend, upon the personalities involved. A strong and senior managing director who enjoyed the confidence of the minister in charge or sometimes of other senior ministers was able to get the board to agree to his views on many matters, to go his own way and to make a success of his enterprise. If he belonged to the senior civil service of the country and was sufficiently senior in that service, that helped him also to obtain the concurrance of the civil service members of the board. There are some excellent examples of such successful functioning in the public sector, but there are also known to be other cases where such a special and advantageous situation did not exist. The top managers in such undertakings feel that the official directors fail to understand their point of view and their problems and that, therefore, efficiency suffers. The complaint seems to be not so much about the formal delegation of powers to the board as about the manner in which board itself functions because of this kind of composition. It is also alleged that instructions, oral or written, are received from ministries about matters that are within the powers of the enterprise management; but it is not

possible for the managements easily to ignore such instructions. The policy has the effect of blurring responsibilities and the creation of feelings of helplessness or indifference in the minds of the actual managers.

As a result of the discussion about this problem and the experience gained, the government decided recently that the serectary to the government in the controlling ministry should not be on the board. It was also decided that though representatives of the controlling ministry and the ministry of finance should be on the board so as to maintain liaison between the government and the enterprises, they should have no power to reserve a proposal or decision for the advice of government. This power is now to be enjoyed only by the chairman of the board. It has also been decided that in order to ensure quick and well-considered decisions on references from public enterprises to government, the decisions should be taken at high levels in the secretariat. The powers of the boards are being enhanced and it is expected that this would also result in a greater autonomy in management being enjoyed by the boards[5].

MANAGEMENT BOARDS

This leads us to the question of the changing pattern of the management boards of state enterprises. Confining our attention to enterprises which are either fully or mainly owned and controlled by the Government of India, we find that a certain pattern for the board has been in existence for some time now, both in the case of statutory corporations and government companies. In addition to officers from the controlling ministry and the Ministry of Finance as mentioned above, there are a few other civil servants, some from other government organisations which may be supposed to have some relationship with the functioning of the enterprise and sometimes also an officer from a state government—generally from the state where the project is located. There are generally two or three non-officials, one mostly a labour leader (generally belonging to the INTUC) and a businessman or a present or past member of the Union or state legislature or an economist or a retired civil servant, etc. There is generally only one full-time director, designated as managing director and/or chairman, and in all cases he is brought from outside the enterprise. This has been the normal pattern. But there are two kinds of exceptions. One is the case of finanacial corporations like the Reserve Bank, the State Bank and the Life Insurance Corporation. In all these, the number of non-official directors is large enough to give them a majority on the board; and many of these non-official directors represent some expertise or

[5]Government of India, Ministry of Commerce and Industry, *op. cit.*

experience valuable to the functioning of the board. The number of full-time directors is also large. The other was the case of Hindustan Steel. We shall discuss it presently.

This normal pattern of state enterprise boards came under a great deal of criticism. It is not now necessary for us to go over this ground fully as some significant changes in government's policy in this regard were announced in 1961.[6] Some of the main points in the new policy have already been mentioned earlier. It was further decided that:

(*i*) Members of parliament will not be appointed as directors of state undertakings.
(*ii*) No officer who is assigned ordinary secretariat duties would be appointed as a director in more than three or four concerns.
(*iii*) The chairman and/or the managing director would be full-time, except in the case of very small concerns.
(*iv*) Government did not like the idea of having internal part-time directors. When internal directors are appointed, they would be full-time directors. Reservation of all appointments on the board to company employees was likely to meet with practical difficulties and therefore cannot be accepted.
(*v*) No full-time director should have any connection with private business. Part-time directors connected with private business may be appointed provided no question of conflict of interest was likely to arise.

This policy no doubt goes a long way to meet the various objections raised against the pattern of boards set up by government up to now. The government seems to have agreed at that time that the ideal would be to have a significantly large number of internal full-time directors. A beginning was to be made by ensuring that in most cases at least the chairman and the managing director should be full-time. The implication seems to have been that more full-time directors would be appointed as necessary and available. They would not all or even mostly be internal at this stage because many of the undertakings being new they are not likely to throw up enough competent persons to be appointed as directors.

As indicated earlier, in the context of state enterprises in an increasingly planned economy like India's, major policy decisions regarding the enterprise are likely to be taken by the government and not by the enterprise board. Thus, the real function of the board will be to ensure the proper performance by the undertaking of the tasks set before it. Directors with a great deal of continuing outside experience and contacts are not really necessary on a board of this type.

[6]Government of India, Ministry of Commerce and Industry, *op. cit.*

With the increasing tendency to group a number of similar units under one large firm, we are bound to see coming into existence a number of giant-sized state enterprises. The board of Hindustan Steel before its recent reconstitution was thought to be a good example of what the pattern of boards for such enterprises can be expected to be. This board had a full-time chairman, who was the chief executive of the undertaking, four full-time directors each in charge of a particular function (personnel, finance, operations, construction), three (internal) part-time directors who were general managers of the three steel plants and two or three other part-time directors, one—a senior official of government, one—the chairman of the Heavy Engineering Corporation, and one—a labour leader from the INTUC who was the leader of trade unions of steel workers in the private sector.

It was obviously thought that for a giant enterprise of the size of Hindustan Steel, it was necessary to have a board which has a large complement of full-time members. Because of the large number of problems that are bound to arise all the time requiring review and decision-making by the board, only a board which has a large number of full-time members can cope up with this work. The difficulty that the part-time members were not likely to be available for frequent meetings, was got over by the creation of a Committee of Management and delegation by the board of substantial powers to this committee. Thus, the committee, which mainly consisted of full time directors, could meet as often as necessary to dispose of the business.

But surprisingly enough, this experiment, which was thought to be an indicator of the future pattern of the boards of state undertakings, has been given up and in the recent reconstitution of the Board of Hindustan Steel, the pattern usual in other undertakings has been followed. There will be a full-time chairman and in course of time all the other directors will be part-time. There will be a senior officer to represent the controlling ministry and the Ministry of Finance; in addition to the existing part-time directors, one, the chairman of a sister enterprise and one, a labour leader, there will be two well known managers from the private sector. The general managers of the three plants will continue to be part-time directors but this is said to be purely a transitional arrangement, as the government does not want to deprive persons who were already directors of their status as directors. But in future there will be no such inside part-time directors. Similarly, in the Fertiliser Corporation and the Heavy Electricals, the status of part-time director which was being enjoyed by the top managers of the individual plants is not being conferred on new incumbents of these positions. This seems to indicate that the government has now decided that the pattern of a predominantly functional board consisting mainly of persons working full-time in the undertaking is not a suitable one.

The question of the type and composition of the board is inevitably closely related to the functions of the board. In the case of enterprises which are carrying out mainly governmental or similar functions, of which the Reserve Bank is the best example, a board which consists mainly of persons who can advise on broad problems of policy with knowledge and experience may be quite appropriate. But in the case of enterprises which have specific manufacturing or trading functions to perform, and in whose case broad policy decisions will anyway lie with government, the only function of the board will be to provide the overall management of the enterprise—to appoint the principal executive, to define the organisational structure and internal relationships in the concern, to specify detailed targets of output, costs, etc., to exercise overall control, to review operations and provide correctives, to maintain liaison with government and parliament, and to prepare for the future by organising research, preparing expansion schemes, and arranging for their execution. Can these functions be best performed by a board predominantly consisting of members whose main area of activity lies outside the enterprise?

This problems has been debated for long in the literature on management organisation and it is obvious that one should not be dogmatic about the answer.[7] A great deal is bound to depend on the types of persons that are available for appointment, the confidence that they can obtain of the government and other such conditions that would vary from enterprise to enterprise and from time to time. It has been pointed out that part-time members of the board can be of great help to the chief executive, chairman of managing director, not merely because of their knowledge and experience but because they can have influence with the minister and generally in the public which helps obtain support for the management once these persons can be convinced of the management's case. It is also said that persons from the business world can be more easily persuaded to accept the management's case because they are in touch with similar problems in their own concerns. It is also maintained that to carry out the functions that a largely internal board can more effectively perform, there may be a Board of Management which consists of the heads of plants and heads of the main functional areas.

[7]The speech of P.L. Tandon, Chairman, Hindustan Lever Ltd., delivered at the recent annual general body meeting of that company, deals with the Lever Group's approach to this problem and would be found interesting in this connection. See especially the following extract: "We have no doctrinaire views on this subject (of working directors against outside advisory directors), but for the recurring day-to-day affairs of the Company, we think that a working board is the practical answer, which is also the experience of many progressive companies elsewhere. As for advice, we have plenty within the concern, but whenever we feel the need, we do not hesitate to look for it outside", *The Economic Weekly*, June 15, 1963, p. 976.

Annexure

LIST OF ASPECTS REQUIRED TO BE ATTENDED TO BY THE AUDITORS, AS PER DIRECTIONS ISSUED BY THE COMPTROLLER AND AUDITOR GENERAL UNDER SECTION 619(3)(a) OF THE COMPANIES ACT, 1956

I. SYSTEM OF ACCOUNTS AND BOOK-KEEPING

1. Has the company issued appropriate instructions laying down the respective duties and responsibilities of various officers in regard to the maintenance of accounts? Does the auditor consider on the basis of test checks exercised, that the accounting system is adequate for purpose of preparations of final accounts as well as for purpose of "auditing in depth" which involves tracing transaction through its initial to final stage? If not, what are the main deficiencies?

2. Are the books of account and the accounts records properly maintained up-to-date? If not, the deficiencies may be pointed out.

The auditor may indicate when the final draft of the accounts is given for audit.

3. In regard to a company with subsidiary units or branches, does the head office maintain proper control accounts of branches? Is there any drawback in the system of control accounts maintained?

4. Is the allocation of expenditure during construction between capital and revenue properly done so that the cost of an identifiable unit of plant (*e.g.*, coke oven in steel plant) can be ascertained? If not, the defective cases should be indicated.

II. INTERNAL CONTROL

1. Has the company issued adequate instructions indicating the financial power of heads of branches and their subordinates? Does the procedure provide for adequate financial checks and safeguards?

2. Is there an internal audit system? Are you satisfied that the important points thrown up by the internal audit have been considered by the administration and necessary action taken? If not, indicate the more important points on which consideration/action is outstanding. Have any drawbacks in the system come to your notice?

3. Does the company prepare the budget for a financial year with adequate details sufficiently in advance? If so, the actual performance in regard to control over revenue and expenditure in relation to budget provision may be indicated.

III. MANUFACTURING AND PRODUCTION ACCOUNTS

1. Does the company maintain periodical quantity accounts of

production of the major products? How do these compare with the periodical targets fixed?

2. Does the company prepare accounts indicating the cost of a unit of its major products? Have you any general comments to make on the effectiveness of the system of cost accounting?

3. Are records maintained for determining the rejections in production? Have you noticed any abnormal variations?

IV. PROFIT & LOSS ACCOUNT

1. On what basis are the selling prices of various products of the company fixed? How do they compare with the cost of production?

2. Has adequate financial provision been made for maintenance of plants and machinery? Are there stand-by plants? If so, how far are they worked during the year as ascertained from the records of the company?

3. Has the company obtained any waiver or moratorium of interest on loans obtained by it from government or others? To what extent has the Profit and Loss Account of the year been affected by such a concession?

V. BALANCE SHEET

1. What are the total volume of book debts during the last four years as on the dates of the respective balance sheets? What are the amounts of debts outstanding for more than one year?

2. Does the system of procurement and disposal of stores ensure that: (*i*) stores much in excess of the reasonable requirements of maintenance and production are not accumulated; (*ii*) the account of (*a*) surplus, and (*b*) unserviceable stores are periodically determined; and (*iii*) surplus and unserviceable stores are disposed of the system?

VI. GENERAL REVIEW

1. What is the ratio of long-term loan advanced to the company to the paid-up Capital?

2. What is the return on capital invested (share capital, long-term loans and free reserves) during the last four years?

3. What is the: (*i*) ratio of closing stock to net sales, (*ii*) ratio of net profit to net sales, (*iii*) ratio of cost of sales (goods) to net sales, and (*iv*) ratio of current assets to current liabilities, over the four years ending with the year's accounts which are audited?

4. What are the subsidies/grants paid during the last five years by government to the company?

5. What is the trend of maintenance cost of service units for the

benefit of the staff during the last four years? Are *proforma* accounts maintained in respect of their operation? If so, what are the results?

VII. GENERAL

Have you any other observations to make in regard to the accounts of the company or their financial working?

The Problem of Autonomy and Control in Public Enterprises in India*

S.N. Puranik

PUBLIC ENTERPRISES constitute an important sector of the Indian economy and occupy a commanding position particulary in the field of industry and commerce. In India, they have been organised in three forms, namely: *(i)* departmentally run or managed enterprises, *(ii)* statutory or government corporations, and *(iii)* government or joint stock companies; the number of the latter two types is constantly increasing. It is pointed out that while at the beginning of the First Five Year Plan in April 1951 there were only 5 Central Government undertakings with a total investment of Rs. 27 crores, there are now as many as 170 public undertakings with an investment of over Rs. 10,000 crores, the present market value of which is many times more.[1] The annual report for 1976-77 on the Working of Industrial and Commercial Undertakings of the Central Government presented to parliament in February, 1978 revealed that there has been continued expansion of production and turnover, greater resources generation, better utilisation of capacity and general price stability of the basic industrial outputs.[2] The increasing importance of public enterprises has also been accepted by Shri H.M. Patel, Finance Minister of the 'right-of-the-centre party' like the Janata which came to power at the Centre in March 1977 by defeating the Congress which was mainly responsible for the growth of the public sector since 1950. He conceded that the policy towards public sector followed by his predecessors had justified itself and that the public

*From *Indian Journal of Public Administration*, Vol. XXIV, No. 4, 1978, pp. 1044-59.

[1]J. Bosu, (Chairman of the Parliamentary Committee on Public Sector Undertakings), "Public Sector Undertakings", *Lok Udyog*, New Delhi, Vol. XI, No. 10, January 1978, p. 5.

[2]For detailed statistics see: "Performance of Public Enterprises During 1976-77", *Lok Udyog*, New Delhi, Vol. XI, No. 12, March 1978, p. 63.

enterprises contributed significantly to the development of the country.[3]

The main thrust of the government policy during all these years since 1950, and particularly in the post-Nehru era, had been to make the public sector really dominant *vis-a-vis* the private sector.[4] The statement on industrial policy made by Shri Fernandes, Minister of Industry, in parliament in December 1977 did not make any major departure from all this,[5] although the important and complementary role of the private sector has also been emphasised by the Finance Minister, Shri Patel.[6]

These public enterprises, unlike the private ones, are heavily inclined towards 'public good' as against 'private good' and considerations of profit-making receive relatively less attention in the minds of the policy makers. However, there is an increasing awareness in India that the public enterprises cannot afford to suffer losses continuously over the years and that they should show at least a minimum efficiency as there is a huge amount of public money invested in them. It is increasingly recognised that the public enterprises are basically economic units and unless they are run efficiently, the role expected of them in the economic transition will bring about a disaster to the country instead. Here arises the need to give these enterprises a certain degree of autonomy which is enjoyed by the privately managed economic units. The expert committtees appointed by the government to probe into the working of public enterprises and the scholars trying to evaluate the performance of public sector in India have considered this aspect of the autonomy enjoyed by public enterprises as important and the theme of discussion in the country for a long time has been: 'how far are these enterprises given autonomy in their day-to-day working and how to relieve them of an excessive governmental interference'. That autonomy and control should both co-exist is not denied. However, they have posed a dilemma.

AUTONOMY AND CONTROL

The business or commercial aspect of public enterprises and the expectation that they should be run efficiently stress the need for greater 'autonomy' in their administration, since the success of private enterprises is largely attributed, among other things, to the autonomy they so enjoy. In the case of public enterprises also, the growth of the units does not depend on the stepping up of the quantum of public investment alone, but also on the intelligence, imagination, confidence and the initiative of the managerial personnel and the discretion they enjoy in

[3]H.M. Patel, "Public Enterprises in Indian Economy : Problems of Management", *Lok Udyog*, Vol. XI, No. 11, February 1978, p. 6.

[4]A. Mehta, *India Today*, New Delhi, S. Chand & Co., 1974, p. 51.

[5]*Lok Udyog*, Vol. XI, No. 10, January 1978, pp. 41-46.

[6]Patel, *op. cit.*

managing the enterprise.[7]

Aspects of Autonomy

A UN pamphlet includes the following freedoms in the word 'autonomy':

(*i*) freedom from the annual appropriation process at least for operating expenses;
(*ii*) freedom to receive and retain operating revenues;
(*iii*) freedom to apply operating revenues to operating expenses;
(*iv*) freedom from general government restrictions particularly in the field of expenditure;
(*v*) freedom from normal government appropriation accounting;
(*vi*) freedom from normal government audit of operation;
(*vii*) freedom from central purchasing and contracting requirements; and
(*viii*) other related freedoms like freedom to borrow money, freedom to hire and fire, freedom to pay salaries at the discretion of the enterprise and freedom to control its long-term planning, etc.[8]

These are, at the most, theoretical propositions and in practice the autonomy granted to an enterprise varies from one enterprise to another. The enabling act of legislature which creates a public enterprise recognises, though not in unambiguous terms, two separate spheres: one, of 'policy matters' and another, of 'matters related to day-to-day administration'. It is expected that in normal circumstances or if larger public interest does not require otherwise, the government should restrict itself to the first sphere while leaving public enterprises to look after the second sphere. It is in this sense that the autonomy in public enterprises is construed generally. Traditional departmental organisation of the government do not enjoy such autonomy, and hence are not suitable for the management of industries. Therefore, the departmental form of organisation is not used, or only used very rarely; instead, the other two types are adopted as they give advantages like 'freedom in administration, elasticity in management, autonomy in finance and freedom from government intervention'.[9]

[7]V.K.R.V. Rao, "The Role of Public Enterprises in the Indian Economy", *Indian Journal of Public Administration* (Special Number on Organisation and Management of Public Enterprises), Vol. X, No. 3, July-September 1964, p. 421.

[8]B.P. Mathur, "Accountability of Public Undertakings in India", *Lok Udyog*, Vol. II, No. 11, February 1969, p. 1125.

[9]R.C. Agarwal, *State Enterprises in India*, Allahabad, Chaitanya Publishing House, 1961, p. 153.

Aspects of Control

However, 'complete autonomy' or 'freedom to take decisions independently in all the matters' is not expected in case of public enterprises for some obvious reasons. First, public enterprises are created with some socio-economic philosophy behind them which they cannot forget or deny; secondly, public money is invested in their creation and growth; in the third place, the motive behind their creation is 'service' to the public at large and lastly, they are viewed as an instrument of a larger public policy. It has rightly been maintained that "the magnitude and growth of the public sector is equally matched by its social responsibilities and public purpose. The logic that it uses tax payers' money has always hunted the managements of public sector in the form of varied and vast ramification of public accountability through parliamentary committees, the ministries and various public agencies besides a number of audit controls."[10] Lord Morrison put the same phenomenon more aptly, neatly and briefly when he maintained, "Public enterprise combine in them public ownership, public accountability and business management for public ends".[11]

In a democracy, the government is responsible to the people and, as such, the public enterprises which are run by the government are responsible and accountable to the legislature which represents the people. This responsibility to parliament gives the latter the power 'to put the matters right' if the enterprise leaves the track. Responsibility, to which Robson adds 'accountability', therefore, includes control and one is meaningless without the other.[12] Accountability implies not only the submission of accounts of completed expenditure for inspection by parliament but also "parliament's right to criticise public expenditure and to apply sanctions in case of unauthorised or excessive expenditure."[13] It is feared that the full amount of autonomy or the absence of adequate public control would make more harm than good to the economy, if as a result of such policy the enterprises behave irresponsibly. Hence the aspect of control is also important in case of public enterprises. It is more true in case of underdeveloped countries where the 'technical know-how' and the 'managerial qualities' are not much developed and besides, "where corruption and malpractices are all too likely to flourish".[14] Moreover, all the countries which have established public enterprises grant them a

[10]N.K. Singh, "A New Model for Professional Management in Public Sector", *Lok Udyog*, Vol. XII, No. 3, June 1978, p. 27.

[11]H. Morrison, *Socialization and Transport*, London, 1933, p. 149.

[12]B.L. Bansal, "Financial Control: Checks and Balances", in *The Public Sector: A Survey* (ed.), Bombay, Vora & Co., 1969, p. 66.

[13]B.P. Mathur, *op. cit.*

[14]A.H. Hanson, *Public Enterprises and Economic Development*, London, Routledge & Kegan Paul Ltd. (2nd Ed.), 1965, p. 379.

certain degree of autonomy but at the same time provide for certain controls which can be grouped into : (*a*) automatic control by the Act, (*b*) 'direct control' by the government, and (*c*) 'indirect' public control.[15]

Conversely, too much control will prove to be a drag on the unit's 'autonomy' thereby reducing it to a traditional departmental form and negating or defeating the very purpose of their creation. Parliament, while reviewing the performance of public enterprises, should see that this does not weaken the initiative in management which would adversely affect efficiency. Sri V.K.R.V. Rao rightly maintained in this context that the bugbear of public accountability should not be so operated "as to kill enthusiasm and initiative in individual public enterprises and prevent them from growing to the levels of output and efficiency that they must rise to, if they are to play a significant role in the building of the Indian economy".[16]

Thus, there is need for both autonomy and control and the reconciliation of these two basic concepts constitute the central problem of management of state undertakings".[17] It is generally observed that this reconciliation is not achieved properly in case of most of the public enterprises. This paper, therefore, attempts to take an overview of the problem as it exists in India and of the attempts made by the government to establish the balance or to achieve the reconciliation.

AUTONOMY GIVEN TO PUBLIC ENTERPRISES IN INDIA

The form of organisation favoured by the government is basically important. Departmental form of organisation poses no problem as regards autonomy and control. However, the distinction between company form and corporate form becomes important; the company form is more flexible than the corporate form and it enjoys no special or independent legal status and 'defined' responsibility to the legislature that the latter does. It becomes important, therefore, in this context that the policy of the Government of India, particularly after the inception of the Second Five Year Plan, has been in favour of company form and *where necessary* the corporate form.[18] Hence the measure of autonomy given to public enterprises in India varies from one form of enterprise (government company) to another (statutory corporation) and again from enterpise to enterprise. Therefore, the treatment given to the problem of autonomy and control is more general than specific.

[15]V.V. Ramanadham, *The Control of Public Enterprises in India*, London, Asia 1964, p. 47.

[16]V.K.R.V. Rao, *op. cit.*

[17]R.C. Dutt, "Management of State Enterprises: The Kumarmangalam Model", *Lok Udyog*, Vol, VII, No. 4, July 1973, p. 6.

[18]S.R. Maheshwari, *Indian Administration*, New Delhi, Orient Longmans, 1968, p. 123.

Autonomy is given to public enterprises in India in respect of matters such as the following, to take only a few examples:

(*i*) The creation and filling of vacancies up to a certain level in the hierarchy;
(*ii*) fixation of special scales for the posts created by them;
(*iii*) taking financial decisions required in day-to-day administration;
(*iv*) corresponding directly with executive authorities of the government such as the chief controller of Imports and Exports, the Controller of Capital Issues, etc., except in matters where the ministry concerned definitely desires that the correspondence should be routed through them; and
(*v*) entering into foreign exchange commitments without any reference to the Ministry of Finance, within the limits of prior allocations of foreign exchange, etc.

It is expected that public enterprises should take decisions on their own in regard to powers given to them and should not look to the higher-ups for decisions on them.

Actual Experience with Autonomy

Actual experience of the public enterprises with regard to the exercise of autonomy sanctioned to them is, however, far from satisfactory. The top managerial posts in public enterprises are filled in by *deputationists* from the civil service cadres and this practice affects the autonomy adversely. The appoinment of government secretaries as members of the board of directors of several concerns in general and the appointments of secretaries as chairmen of the board of directors of a few government companies, in particular, bring in the powerful influence of the ministry concerned on the working of these enterprises and hence, as Prof. Agarwal comments, "The questions of such a board not following ministerial wishes does not arise at all."[19] As a result, the enterprise loses its autonomy and is reduced to the status of a department. The case of the Life Insurance Corporation well illustrates this point. The evidence presented before the Commission of Enquiry (Chagla Commission) showed that "the Life Insurance Corporation was not at all autonomous and the officials of the Ministry of Finance were treating it as a government department".[20]

This 'deputationist' policy affects the autonomy in two important ways. First the enterprises heavily rely on the government for these

[19]R.C. Agarwal, *op. cit.*, p. 225.

[20]C.P. Bhambhri, *Public Administration in India*, Delhi-Bombay, Vikas Publishing House, 1973, p. 108.

posts and the government officers who man these posts often lack initiative and capacity to take decisions independently. These persons do not look to the interests of the enterprise in which they work. Secondly, they bring with them what is called 'civil service culture' as against the 'industrial culture' which percolates downward and mars the business character of the entire organisation.

Appointment of legislators on the board of directors of these enterprises has also impaired their autonomy. In India, the membership of the boards is not closed to legislators, except in the case of the Damodar Valley Corporation and the Reserve Bank of India. Eminent persons like Sri Gorwala have disapproved such a practice. The presence of legislators or ministers has a qualitative effect on the tenor and character of the board of directors inasmuch as it dampens their autonomous working.[21]

It is also observed that these public enterprises are obliged to deal directly with the ministry to which they are attached and there is no effective unit between the enterprise on the one hand and the minister-in-charge on the other, a unit which will work as a 'buffer' and which will prevent direct ministerial interference in the internal affairs of the enterprise concerned.

Measures Adopted to Strengthen the Autonomous Character

It seems that the Government of India is aware of these snags and have, on expert advice, attempted to remove them with a view to strengthening the autonomous character of public enterprise. To mention only a few of the measures adopted by the government in this respect:

(*i*) An industrial management pool was created in the late 'fifties' to reduce the reliance of the public enterprises on civil service personnel.

(*ii*) It was decided to withdraw all civil service personnel from the undertakings except those who opted permanently for them.

(*iii*) On the recommendation of the Krishna Menon Committee the practice of appointing departmental secretaries as chairmen of public enteprises was given up in a large number of cases.

(*iv*) It was decided to restrict the representation of the government on the board of directors of these enterprises to two only, one from the administrative ministry and the other from the finance ministry.

(*v*) The organisation like SAIL (Steel Authority of India Ltd.) was created in the year 1973 with a view to bringing all the public

[21]K.R. Gupta, "Governing Boards of Public Enterprises", in *Organisation and Management of Public Enterprises* (ed.), Vol. II, New Delhi, Atlantic Publishers & Distributors, 1978, pp. 18-22.

and private sector steel plants and coaking coal mining units under one common umbrella.

(*vi*) A Bureau of Public Enterprises was set up in the ministry of finance in 1964 with a view to providing policy and overall guidance to public enterprises and carrying out a continuous appraisal of the organisational set-up, personnel requirement, performance, etc.

(*vii*) The government has created a Public Enterprise Selection Board (PESB) in 1974 which advises the government on matters like appointments to senior management positions and on management development within the companies.[22]

However, these attempts proved less than satisfactory; nor were they successful and the basic character of the relationship between the Union Government and the public undertakings remained as before. The industrial management pool soon became stagnant and no systematic attempt was made to build up a separate public enterprise cadre to man the top managerial posts in public enterprises. Although, the departmental secretaries ceased to be chairmen of public enterprises in their formal capacity, they continued to enjoy the authority delegated to them earlier.[23] Representatives of the Central Government on the board of directors of these enterprises, though reduced to the minimum of two, further continued to exercise a disproportionate influence on the deliberations in the board meetings. Even the experience with the Bureau of Public Enterprises did not remain encouraging in this respect and instead of working merely as a 'buffer', it often attempted to work as an 'executive authority'.[24]

All the attempts made by Union Government, therefore, did not add anything substantially to improve the extent of autonomy originally given to them and "the public undertakings continued to be dominated by the government".[25] It can be safely maintained that the public enterprises continued to rely heavily on the government in the matters of men, money and management and it affected their autonomy adversely. Some scholars have gone to the extent of saying that the "autonomy of the corporations in India has become a farce".[26]

Inefficient and unsatisfactory managerial performance of the public enterprises also invites ministerial interference in their working and cur-

[22]D. Amarchand, "Public Accountability", in *Organisation and Management of Public Enterprises* (ed.), *op. cit.*, p. 68.

[23]R.C. Dutt, *op. cit.*, p. 7.

[24]D.S. Nakra, "Performance Evaluation of Public Undertakings", *Lok Udyog*, Vol. VII, No. 5, August 1973, p. 23.

[25]R.C. Dutt, *op. cit.*

[26]C.P. Bhambhri, *op. cit.*, p. 116.

tails their autonomy. It is pointed out that public enterprises are lethargic in preparing their budgets before the year begins and even in matters like reporting about their performance to the ministry, etc., and such delay affects their autonomy further. It is said that "autonomy without obligation invites outside interference'.[27]

CONTROL AND ACCOUNTABILITY OF PUBLIC ENTERPRISES IN INDIA

Government control over public enterprises in India is exercised in several ways. First, government has the power to appoint the chairman and representatives on the board of directors of these enterprises. Secondly, government has the power to issue directives or instructions to these undertakings, wherever necessary. Thirdly, certain matters like collaboration agreements, annual and five year plans, annual capital budget, revenue budget, etc., require prior approval of the government. Fourthly, the enterprises are required to submit periodical reports to the administrative ministry and to the Bureau of Public Enterprises. Lastly, progress review meetings are convened by the administrative ministries with the top managerial personnel of these undertakings.

Further, all these enterprises are subject to the overall control exercised by the Comptroller and Auditor General of India and it is to be specifically pointed out in this context that no distinction exists between auditory control over the usual governmental departments and the statutory corporations or government companies, contrary to the practice in countries like Britain and the USA. Article 149 of the Indian Constitution empowers the Comptroller and Auditor General to audit the accounts of the Union and of the States and of any other authority or body as may be prescribed by parliament. Section 619 of the Indian Companies, Act lays down that the auditor of a government company shall be appointed by the Central Government on the advicc of the Comptroller and Auditor General who is further empowered to direct the manner in which the accounts of the company shall be audited and also conduct a supplementary or test audit if he so desires. The accounts of government corporations, however, are audited in the manner prescribed in their respective statutes. But in case of most of the government corporations, the Comptroller and Auditor General has been empowered to conduct the audit by himself or through professional auditors appointed by him. Since 1969, the auditory control over these enterprises is exercised by the Comptroller and Auditor General *through* the Audit Board which was set up on the recommendation of the Administrative Reform Commission.

[27]Tandon, "Profitability and the Public Sector", *Lok Udyog*, Vol. VII, No. 6, September 1973, p, 33.

Accountability to parliament is mainly in the following ways:

(*i*) Members of the parliament can ask questions to the concerned minister of the working of public undertakings under his charge.

(*ii*) Members of parliament can discuss the affairs of public enterprises when the House takes up 'demands for grants' for discussion and vote.

(*iii*) Parliament can examine the working of these enterprises through its regular committees like the estimates committee and the public accounts committee and special committee like the committee on public undertakings.

(*iv*) Parliament receives every year a comprehensive appraisal of the working of selected public undertakings done by the Audit Board.

(*v*) Public enterprises are required to present to parliament their annual report together with a copy of the audit report made by the Comptroller and Auditor General of India.

Actual Enterprises with the Controlling Powers

(*i*) *Ministerial Control:* The minister in India exercises powerful influences on the working of public enterprises since the major controlling powers vested with the government are exercised through him only. His role has proved to be very important; first, in regard to his power of appointing and removing the members of the board of directors and, secondly, in regard to his power of issuing directives or instructions on policy matters. These powers are wide and broad because, on any matter of controversy, the word of the minister (or ministry) supersedes that of the enterprise in question. Till very recently, it was not obligatory for the government either to inform the House on the directives issued to the public enterprises or to publish them in any form. Dissatisfaction over this lacuna expressed by the estimates committee, the committee on public undertakings and also by the Administrative Reforms Commission had very little effect on the government. However, the government accepted the suggestion made in this respect by the ARC and, in its reply placed before parliament on the 10th May, 1968, explained that "Where government consider it necessary to issue a directive to a public enterprise, it should be in writing; the issuance of the directive should also find a mention in the annual report of the concerned enterprise,."[28] It is to be seen, however, that this is given a sincere trial by government in case of all the public enterprises. Further, 'pre-consulta-

[28]Quoted by L. Narain, "Parliamentary Committee on Public Undertakings—The British Experience", *Lok Udyog*, Vol. XI, No. 7, October 1978, p. 14.

tion with the government' or 'prior approval of the government' is required if any public enterprise wants to undertake any new activity or programme. By using these powers, a shrewd minister can easily make the public enterprise subservient to the administrative ministry which he heads and yet can evade his responsibility to parliament.

It is pointed out in the context of India that "the ministers interfere not only in broad matters of policy but also in matters of detail such as personnel management, labour relations, stores purchase policy, etc.,"[29] The following examples throw light on the influence wielded by the ministries in respect of public enterprises. The board of directors of the Damodar Valley Corporation thought that the 'residual powers' vested with the Corporation. However, the Union Government insisted otherwise and claimed that those powers vested with the government. Accordingly, the government desired that the agenda for the board of directors meeting must be approved by it and the proceedings submitted to it. The board of directors of the Damodar Valley Corporation had to yield to a compromise formula which recognised the ultimate and superseding powers of the government.[30] Further, in case of the same Corporation some project plans were prepared by the chief engineer and were approved by the consultant engineers, all of whom were specially qualified men. But the plans had to be subjected to a further scrutiny by the engineering departments of the three concerned governments.[31] Excessive dominance of the Finance Ministry in the LIC affairs was pointed out by the Chagla Commission appointed to enquire into the famous 'Mundra deal'.[32] Examples like these in case of other public enterprises have given rise to general feeling that the administrative ministries often evade their role while exercising the controlling powers. A comment of the estimates committee is very pertinent in this context. It observed: "In the relations between the undertakings and the ministry, the former are treated in the same manner as departments and offices of government, controlled and supervised by the secretariat".[33] Prof. Das's remark on this phenomenon of ministerial control that it "often goes to fantastic length".[34] also deserves attention in the context.

(*ii*) *Audit Control:* Now the emphasis is clearly on the need to carry 'efficiency' audit rather than 'legality' audit. However, the Comptroller and Auditor General has successfully used his authority to bring the public corporations and government companies completely under his

[20]D. Amarchand, *op. cit.*, p. 72.

[30]R.C. Agarwal, *op. cit.*, p. 226.

[31]*Ibid.*, p. 155.

[32]C.P. Bhambhri, *Bureaucracy and Politics in India*, Delhi-Bombay, Vikas 1971, p. 285.

[33]Quoted by B.L. Bansal, *op. cit*, p. 69.

[31]N. Das, *The Public Sector in India*, Bombay, 1961, p. 91.

purview and doubts have been raised about his competence to go beyond the matters which are covered under the 'efficiency' audit generally. The following observation is apt in this context. "There are dangers in allowing the Comptroller and Auditor General to push his finger too far into the public enterprise pie.... He will probably try to extend the boundaries in matters of which, to say the least, his understanding is imperfect. Moreover, if he is a parliamentary official, he may encourage parliament itself to get too deeply involved in the affairs of public enterprises, to the detriment of their independence. There is evidence that this has happened in India."[35] Appleby has also pointed out how the Comptroller and Auditor General claimed his jurisdiction even over the decisions taken by the board of directors to ascertain to what extent their powers were exercised in the best interests of the undertakings.[36] Arora maintains in this context, "In Britian the Auditor General has consistently been declining to extend his jurisdiction to the nationalised industries. On the other hand, in India, successive Auditors General have been very keen to get their department thoroughly involved in this area".[37]

Thus there is evidence to believe that the auditory control over the public enterprises is 'more than what is desired' and irrespective of the creation of the audit board, the approach has not changed as yet. A point has often been made in favour of what is called 'management' audit or 'efficiency' audit of the public enterprises, the purpose of which should be "to show to the men in positions of management their errors and the shortcomings of their ways and their far-reaching long term effects."[38]

(iii) Parliamentary Control : There are adequate opportunities to parliament in India to exercise effective control over the public enterprises. It should be pointed out, however, that there is intrinsically less control exercised by parliament on the working of public enterprises organised as government companies, since "the memorandum and the articles of association are in the nature of 'internal' documents which neither come to parliament for discussion before their finalisation nor attract parliamentary attention whenever any modification is made".[39] The position is somewhat satisfactory in the case of the corporation form because this is established by statute by the parliament itself.

[35]A.H. Hanson, *op. cit.*, p. 383.

[36]P. Appleby, *Re-examination of India's Administrative System with special reference to Administration of Government's Industrial and Commercial Enterprises,* Cabinet Secretariat, O & M Division, New Delhi, 1956, pp. 28-29.

[37]R.S. Arora, "Audit and Accountability of Public Enterprises in India and Britain", *Lok Udyog*, Vol. VII, No. 7, October 1973, p. 40.

[38]B.L. Bansal, *op. cit.*, p. 72.

[39]V.V. Ramanadham, *op. cit.*, p. 66.

Further, the control exercised by parliament is far from satisfactory with perhaps the exception of its role through the legislative committees and through the auditing machinery. Even in regard to the legislative committees, some lacunae have been pointed out. Reports of the estimates committees make interesting reading and are really valuable. However, it is pointed out that this committee finds no time to study the working of all the enterprises. The committee on public undertakings, established by parliament in 1964, is also not able to do this gigantic task of examining the work of the ever increasing number of public enterprises. However, the setting up of this committee was, in the words of Sri Hukum Singh, Ex-Speaker of the Lok Sabha, "a vital step taken towards ensuring better and effective control over public undertakings"[40]. This Committee has also emphasised the need for examining a greater and more effective parliamentary control on the existing undertakings and prior approval of the parliament for registering new government companies.[41]

The right to ask questions to the minister is also a useful device through which parliament exercises control. It is expected that questions should not be asked on matters which fall within day-to-day jurisdiction or working of these enterprises and that they should be confined to policy matters or to the overall performance of the enterprise. It is maintained in this context that the autonomy given to public enterprise should not restrict the right of parliament to exercise effective control over one of the important segments of the country's administration. Shri Mavalankar, Ex-Speaker of the Lok Sabha, expressed this line of thinking when he maintained "...merely because the system makes them autonomous it does not follow that the system can take away the jurisdiction of parliament in having a full probe into the administration of that autonomous body."[42]

A general tendency to elicit information on the day-to-day matters of public enterprises is seen when the questions are put to ministers in parliament. Instead of confining themselves to a survey of the overall position, as is done by their counterpart in Britain, the parliament members in India often tend to elicit answers on the day-to-day working of the enterprise.[43] Further, the members ask such questions the information on which could have been secured by them directly from the public relations officers of the enterprise concerned or from reading carefully the annual reports of the enterprises submitted to parliament. Such questions, according to Prof. Ramanadham, serve no useful

[40]B.P. Mathur, *op. cit.*

[41]B.B. Gupta, *Organization and Methods for a Welfare State*, Allahabad, Chugh Publications, 1976, p. 143.

[42]Quoted by B.P. Mathur, *op. cit.*, p. 1128.

[43]B.L. Bansal, *op. cit.*, p. 68.

function of exercising control over public enterprises.[44] On the contrary, such questions swallow the much precious time of parliament.

It is said that the annual reports submitted by the public enterprises do not adequately inform parliament on various matters pertaining to their performance and this also impels parliament members to ask more questions, even though of a trivial nature. In the absence of adequate knowledge about the technical, business or commercial character of the enterprises and also about their overall functioning, it is futile to expect that the members will exercise effective control over public enterprises. Inability to get adequate information about the overall performance and problems of public enterprises strengthens the ministerial influence on the enterprise which further affects their autonomous character adversely.

CONCLUSION

It is evident, then, that there is no happy balance between 'autonomy' and 'control' in the case of public enterprises in India. The scale is tilted in favour of 'control' which is also not being exercised in the interest of the enterprise proper. First, the ministers or ministries concerned do not allow 'freedom of action' to the public enterprises under their charge; secondly, the role of the Comptroller and Auditor General is too 'authoritative' to be liked by the managers of public enterprises, and lastly, parliament is unable to restrict the 'undue influence and interference' of ministers in the affairs of public enterprises. There is wide scope, therefore, to strengthen the autonomous character of public enterprises and also to improve the performance of the controlling function.

Various expert committees or commissions appointed by the government and scholars who have shown special interest in the various aspects of the working of the public enterprises have made valuable suggestions in this regard. To mention a few of them:

(*i*) Organisations like SAIL should be created in other important areas and the direct contact of the minister with the individual enterprise should, as far as possible, be avoided.

(*ii*) Legislators should not be given membership on the board of directors and even the ministers should be kept away from such posts, at least in the case of 'ordinary public enterprises with limited responsibilities"[45]

(*iii*) Tl.e Union Government has created a Public Enterprise Selection Board (PESB) to seek advice on matters like appointment

[44]V.V. Ramanadham, *op. cit.*, p. 115.

[45]K.R. Gupta, *op. cit.*, p. 46.

to senior management positions but this arrangement is insufficient. An independent 'managerial cadre' for public enterprises personnel should be created with a view to minimising the excessive dependence of public enterprises on administrative ministries for meeting their personnel requirements. It is to be noted here that the new Janata Party Government, in its industrial policy statement, has categorically recognised the need for giving high priority to the building up of a professional cadre of managers in the public sector who would be given necessary autonomy and entrusted with the task of providing dynamic and efficient management to such enterprises.[46]

(*iv*) The accounts of public enterprises should be subjected strictly to 'commercial' or 'efficiency' audit so as to do away with the domineering influence of the Comptroller and Auditor General.

(*v*) The public enterprises themselves should try to conduct their business efficiently so as to inculcate faith and confidence about them in the minds of public authorities and the government should do everything necessary to improve the functioning of these enterprises. The bureau of public enterprises can be further activised to give expert guidance to the public enterprises for this purpose.

As regards improvement of the 'controlling' function, the views of experts and expert commissions should be given a fair trial by the government. It is suggested that the purpose of control should be: (*a*) the promotion of efficiency of the public enterprise, (*b*) the attainment of targeted results, (*c*) the attainment of national objectives specific to individual enterprises, (*d*) the regulation of undue managerial powers in fixing prices, (*e*) the regulation of concentration of economic power, and (*f*) the ensuring of ministerial responsibility in parliament.[47] Many valuable suggestions, have been made in this regard; a few of them are:

(*i*) Too much adherence to or preference of 'company form' should be averted, as it gives more powers to the minister and less chances to the legislature to discuss its affairs. The Estimates Committee (1959-60) and the Administrative Reforms Commission favoured statutory corporations in its place. The ARC held that the statutory corporation form should be adopted in the industrial and manufacturing field

[46]See 'Statement on Industrial Policy made by George Fernandes . . .", *Lok Udyog*, Vol. XI, No. 10, January 1978, pp. 44-45.

[47]V.V. Ramanadham, *op. cit.*, p. 239.

and for promotional and developmental activities. The company form was suggested by the ARC for predominantly trading concerns and for projects where there was private participation.[48]

(*ii*) Parliament should have more access to information on public enterprises and arrangements should be made, like in Britain, so as to enable the MPs to receive information 'directly' from the enterprises.

(*iii*) As Prof. Ramanadham suggests, 'control cells' should be established in each ministry to enable the government to exercise effective and thorough supervision and to issue directives. These cells can also provide expert advice to the minister in the exercise of his powers in regard to the enterprises under his charge.[49]

(*iv*) The board of directors of these enterprises should be restructured with a view to keeping them free from any pressure of political elements like legislators and ministers. The Krishna Menon Committee had suggested that a board should consist of financial talent, administrative talent, technical skill, representatives of labour and personnel management[50] and this suggestion is still relevant.

Although no serious consideration is given to such expert suggestions by the government as yet, it is felt that it will have to 'restructure' its entire policy in regard to organising public enterprises keeping in view the changed socio-economico-political situation in our country.

In case the balance is restored between 'autonomy' and 'control', there is reason to hope that the public enterprises will perform their functions efficiently and accelerate the pace of economic development in our country. □

[48]Administrative Reforms Commission, *Report on Public Undertakings*, Government of India, New Delhi, 1967, p. 14.

[49]V.V. Ramanadham, *op. cit.*, pp. 81-83.

[50]Quoted by K.R. Gupta, *op. cit.*, p. 24.

Public Enterprises : Parliamentary Control or Accountability?*

David C. Potter

IN AN inaugural address to the Political Science Conference at Hyderabad in 1951, His Excellency Sardar K.M. Panikkar challenged Indian Political Scientists in the following manner.

> We have to discover the nature and extent of popular authority over autonomous statutory bodies set up by the State to administer great enterprises started in the public interest but run on commercial principles. We have to consider and determine how far parliamentary control can be reconciled with efficiency in large scale enterprise which every modern State seems to undertake in some form or another. These are matters properly entitled to your serious consideration.[1]

The above challenge to political and administrative ingenuity, despite some recent thoughtful consideration and discussion, still remains to be met. The so-called 'nub' of the Sardar's proposition turns on the nature and extent of the relationship between the 'autonomous' enterprises and the popular authority as represented in the Indian Parliament. This relationship is one of accountability and/or control. The concepts of parliamentary control, the accountabiiity of public enterprises to parliament, and their autonomy, are mutually inter-related, but at the same time quite distinct from each other. Some writers and most parliamentarians find it an easy thing to use the terms accountability and control interchangeably. Strictly speaking, accountability involves receiving accounts, statistics and reports while control is a function of giving stimulus, guidance and restraint. Any confusion here tends to

*From *Indian Journal of Public Administration*, Vol. V, No. 3, 1959, pp. 320-32.

[1]K.M. Panikkar, "Inaugural Address" to the Political Science Conference at Hyderabad, on December 27, 1951, *The Indian Journal of Political Science*, XIII (January-March, 1952), p. 14.

be confounded in that, as one writer correctly puts it, "accountability—the rendering of an account—necessarily involves some control if it is not to be an empty formality".[2] This is not a contradiction in terms if examined closely. The following assessment neatly sorts out the concept of control as coterminus with the definition of accountability:

> Parliament has an unlimited general power of control in that it can alter the law; but it has no specific power of control, as distinct from its right to receive an account. On the other hand, it has far more opportunity than a body of shareholders to express its views, its criticisms, its apprehensions, even its confidence and satisfaction if it should come to entertain these feelings; and it would be wrong to suppose that such expressions have no influence, merely because the sanction behind them is an unwieldy one.[3]

In terms of this definition, we can chart the theoretical "chain of command", so to speak, from the shareholders to the boards of directors of the public enterprises. The people are the shareholders and, in a democratic framework, the members of parliament are their representatives and reflect the will of their separate constituencies which, in sum, reflects the will of a country as a whole. The ultimate authority over the public enterprises is placed in the hands of the elected members of parliament. But parliament is too big, too inexpert and too busy to successfully govern individual projects under its jurisdiction. It is the ministers who have *specific* powers of *control* over the public enterprises and the degree to which the accountability of the enterprise to the people is successful rests on the degree to which the ministers are accountable to the members. The minister controls, and is, in turn, accountable to parliament which represents the people, the final authority.

The minister should be able to control. In India, he does so. Executive control over corporations is formally established in much the same manner as is done in Britain, The proviso in the Air Corporations Act, 1953 [section 34(1)], is typical: "The Central Government may give to either of the Corporations directions as to the exercise and performance by the Corporation of its functions, and the Corporation shall be bound to give effect to any such directions." In point of fact, control over both public corporations and government companies is mainly exercised in informal ways. A former minister of finance quite frankly admitted, on the floor of the Lok Sabha, his informal financial control

[2]H.A. Clegg, *Industrial Democracy and Nationalization* (A study prepared for the Fabian Society), Oxford, Basil Blackwell, 1951, p. 41.

[3]Sir Joeffrey Vickers, "The Accountability of Nationalised Industry", *Public Administration*, XXX, Spring, 1952, p. 80.

over the decisions of the boards of the public enterprises, in a surprising statement:

> There is an act of self-abnegation here. However, certain patterns are being evolved and where for the sake of facility of administration or for the elimination of red tape, we invest that body, may be a company or a corporation, with financial powers, certain precautions are taken. One precaution which is invariably taken is that the financial representative at a very high level is attached to that concern as a director. Now when he exercises his powers, *although it is not said so in so many words that everything shall be done with his concurrence, in practice that result is bound to follow.* Because, if he is overruled, well, then he can report the matter to the ministry of finance and the minister of finance can take up the matter with the corporation and move government to make the necessary changes which will ensure that financial advise is taken.[4]

The convention in India at present is that the boards of directors of Central Government companies and public corporations are heavily laden with ministerial and Indian civil service appointees. The evidence here is clear. The Indian Institute of Public Administration's study on public enterprises in India gives names and titles of the members of the boards of directors of nine of the public corporations and 35 of the government companies.[5] Their study shows that the ministry of finance is represented on seven of the ten boards of directors of the public corporations.

Similarly, the Government of India is well represented on the nine corporations' boards examined. The same situation exists in respect of the boards of directors of the government companies with the ministry of finance represented by its senior officers in 30 of the more important companies in the public sector. What this means is that control by a minister over any important decision by the board of directors of a particular 'autonomous' public enterprise in India is virtually absolute because the personnel in each case are largely one and the same. This would seem to violate the conception of 'autonomy', and yet, the public corporations and government companies were set up largely with this premise in mind. The justification for maintaining this arrangement

[4]C.D. Deshmukh made this statement during the course of the debate in the Lok Sabha on "Parliamentary Control of Public Corporations": House of the People, *Parliamentary Debates*, Parts II, Vol. X (December 10, 1953), col. 1922. (Italics by the writer).

[5]*Administrative Problems of State Enterprises in India*—Report of a Seminar, December, 1957, New Delhi: Indian Institute of Public Administration, 1958, Appendices IV and V.

has been stated in most significant terms: "It is clearly not feasible to give a completely free hand to the management in view of the responsibility and accountability of the Minister to Parliament."[6]

II

Since the minister controls the public enterprise, the enterprise, as well as the minister in charge of it, should account to parliament if they are to be 'public' in the true spirit of the word. But also, in view of the definition of accountability, parliament must retain the right to exercise *ultimate* control over the public enterprises if accountability is not to be an empty formality. It can be stated unequivocally that Parliament's constitutional right to pass statutory Acts, to amend statutory Acts and to pass Acts and/or amendments which apply to public enterprises assures its ultimate control over the enterprises. Every public corporation has been established by an Act of Parliament and every government company is regulated by the provisions of the Companies Act, 1956. Only parliament is capable of amending these Acts. Legally, then, the ultimate authority over the public enterprises properly rests in the hands of the voting members of parliament. Once the public enterprises have been established by or have become subject to an Act of parliament, it is essential, in lieu of the very meaning of accountability, that parliament be continually cognisant of the working of the enterprises in order to be assured that they are acting in accordance with the provisions of the Act and in the interests of national policy. In short, if public enterprises are to be accountable to parliament, parliament must be continuously well-informed about them. For parliament, any less would make accountability meaningless; any more would be a transgression of its proper role of authorising policy rather than implementing it. It is with this in mind that the various methods by which parliament holds a public enterprise and the minister-in-charge accountable must be examined. It is on the basis of this that it is argued below that the accountability of Indian public enterprises to parliament is defective.

For it is clear that members of parliament are not well-informed about the public enterprises; the budget documents are a case in point. The Central Government is expected to spend over Rs. 500 crores in the Second Plan period on industrial enterprises in the public sector and the impact of this expenditure on the national economy is bound to be significant. It is both necessary and desirable for parliament to debate the financial requirements of the public enterprises while approving the

[6]Ministry of Finance, Department of Economic Affairs, *Office Memorandum No. F. 20(79)—P/55*, (dated 13th March, 1957) as stated in Estimates Committee's *Nineteenth Report* (Second Lok Sabha) (New Delhi: Lok Sabha Secretariat, 1958), p. 25, col. 4.

budget. Most government companies and public corporations are financed initially by money drawn against the Consolidated Fund of India. Parliament must sanction money from this fund.[7] The Comptroller & Auditor-General of India has declared that "when a new company is to be formed, a demand, for grant for its financial requirements is placed before the House, thus affording it an opportunity of discussing the investment and the form it is proposed to be made."[8] Also, in referring to public corporations in India, the joint secretary of the Lok Sabha Secretariat has maintained that "the loans and investments made by government are included in the budget of the State"[9]. On the other hand, the estimates committee has found that the annual budgets of the public enterprises, "with perhaps the solitary exception of DVC, are not made available to parliament."[10] Clearly, Parliament is responsible for the mony lent to the undertaking and should have all the information relating to their working necessary to exercise that responsibility. The position at present, however, is that "the Explanatory Memoranda accompanying the Budget contain a statement showing the investment made in these bodies and that proposed to be made during the Budget year, and also contain the balance sheet and profit and loss accounts of some of the enterprises, but not all."[11] For example, the Explanatory Memoranda for the 1958-59 Budget gave accounts for 17 enterprises although the number of enterprises at that time exceeded 45.[12] The inadequacy of the budget documents on the public enterprises has found expression in several recommendations by the estimates committee in their 20th Report:

> Industrial Undertakings should prepare a performance and programme statement for the budget year together with the previous year's statement and it should be made available to the parliament at the time of the annual budget.
>
> These bodies might also be encouraged to prepare business-type budgets which would be of use to parliament at the time of the budget discussions.
>
> The latest accounts and balance sheets as well as the annual reports

[7]*The Constitution of India* (as modified upto 1st April 1958), Articles 204 (3) and 266 (3).

[8]Asok Chanda, *Indian Administration*, London, George Allen & Unwin, 1958, p. 199.

[9]S.L. Shakdher, *Budgetary System in Various Countries*, New Delhi: printed privately, 1957, p. 106.

[10]Estimates Committee, *Twentieth Report*, 1958, p. 13.

[11]Estimates Committee, *loc. cit*., p. 13.

[12]*Consult* Government of India, *Explanatory Memorandum on a Budget of the Central Government for 1958-59* (as laid before Parliament), Appendix to Section III, pp. ii-clxxxix.

should be made available to parliament at the same time.

The separate volume for each ministry and department, incorporating the budget and portions from the explanatory memoranda and annual reports, should also include a separate chapter containing the above information and documents in respect of all undertakings which are related to the ministry concerned.

It would be desirable to bring out a consolidated volume containing the documents mentioned above for all the statutory bodies and private limited companies of government containing an appreciation of their working and their net result on the budget.

To facilitate the understanding of all the activities of the public enterprises it would be desirable that they should have a common financial year, namely, the same as that of the government.[13]

These recommendations serve to underscore the fact that the presentation and organisation of data in connection with the Annual Budget of India are not conducive to informed debate on the public enterprises except by those few MPs who either already possess knowledge on the enterprises or who have developed an appetite for detailed study of them. The paucity of direct references to the public enterprices in the 1958-59 budget session supports this contention. For example, the six demands for grants in respect of the ministry of commerce and industry were debated for over six hours.[14] This ministry is responsible for 18 government companies, and yet, almost no mention was made of those companies. The reason is not far to seek. The budgets of these companies were not made available to parliamentarians. Indeed, the administrative report of the ministry of commerce and industry was still under print when the demands for grants were debated.[15] One must conclude that the debate of the finances of the Indian public enterprises, at present, is deficient, due to lack of information.

Accounts and reports are the raw materials of accountability. Happily, every public enterprise in India is required by law to submit annual reports to parliament. The government companies have recently been obliged to perform this function by virtue of Article 639(1) of the Companies Act, 1956, which states: "The Central Government shall cause an annual report on the working and affairs of each government company to be prepared and laid before both Houses of parliament together with a copy of the audit report and comments upon, and supplement to, the audit report made by the

[13]Estimates Committee, *loc. cit.*, p. 30.

[14]*Lok Sabha Debates*, Vol. XIII (19 March 1958) cols. 5633-5758; *Ibid.*, cols. 5842-5986.

[15]*Ibid.*, cols, 5634-5635.

Comptroller & Auditor-General of India". In like manner, each statute establishing a public corporation of India contains a clause which requires that annual reports be submitted to parliament.[16] An exhaustive survey reveals that, contrary to prevailing opinion, all the public corporations and all but one of the government companies are now forwarding annual reports or statements to parliament.[17] All these reports are "laid on the Table of the House" and copies, therefore, are available at the publications desk for scrutiny by members. Few reports are discussed on the floor of the House. Interested members may read them, though, and bring matters in connection with them before the House by asking parliamentary questions, by introducing motions and resolutions and while debating relevant bills. Quite recently, the reports have been placed in the parliament library within easy reach of even the most casual visitor.[18] And yet, the tendency is still for the reports to circulate closely within governmental circles and eventually to gather dust in the Parliament Library. Although the majority of them are printed, now, they are not, in most cases, on public sale. If accountability by means of budget documents suffers because of non-availability, submission of anuual reports is limited in effectiveness due to lack of quality. The following assessment of annual reports by British nationalised industries would seem to have universal application:

> The Board is quite consciously showing off its paces before the public, justifying its way in front of a highly critical audience. It has no intention whatever of revealing failures and inefficiencies; on the contrary, it is desperately anxious to cover them up. Things that have gone wrong are not mentioned, concealed behind vague, bromidic generalisations and ascribed to the impact of forces over

[16]*Consult* Air Corporations Act, 1953, section 37(2), Damodar Valley Corporation Act, 1948 [(section 45(5)]. Employees State Insurance Act, 1948 (section 36), Agricultural Produce (Development and Warehousing) Corporation Act, 1956, section 42(4), Life Insurance Corporation Act, 1956 (section 29), Industrial Finance Corporation Act, 1948 (as modified up to 1st April, 1956), section 35(3), and the Rehabilitation Finance Administration Act, 1948 [(section 18(2)]. The Reserve Bank of India Act, 1934 (as modified up to 1st November 1956) requires that reports and accounts be submitted to the Central Government [(section 52(2)] and they are published in the official Gazette weekly [(section 53(1)] and annually [(section 53(2)]; the State Bank of India Act, 1955 requires essentially the same procedure under section 40.

[17]There is no report from the National Instruments (Private) Ltd. in the Parliament Library. Cf. Parmanand Prasad, *Some Economic Problems of Public Enterprises in India*, Leiden, H.E. Stenfort Kroese N.V., 1957, p. 188: "The Companies do not submit reports to Parliament. . . ."

[18]The reports are now on one shelf in the same room as the card catalogue. The Library was moved in the fall of 1958 to more spacious quarters in what was formerly the precinct of the Indian Supreme Court.

> which the industry concerned has no control. To say this is not to condemn the report as worthless or the Board as hypocritical. All it means is that people who are attacked have a natural tendency to defend themselves. But it implies that one can hardly expect an objective appraisal of the performance of a nationalised industry from its annual report, and it is unreasonable to look for one.[19]

The reports of the ministers are easily accessible and more widely used by the parliamentarians. If the ministerial reports on the two airlines corporations are representative examples, then this avenue of accountability is unusually deficient.[20] For example four reports have essentially the same first sentence: "civil aviation in India continued to make steady progress during (1954-55), (1956-57), (registered good progress during 1955-56), (maintained steady progress during 1953-54)". The following uniformative paragraph in the 1957-58 Report is identical to one on page 25 of the Indian Airlines Corporation's 4th Annual Report of the previous year:

> The Labour Relations Committee constituted under section 41 of the Air Corporations Act, 1953 held eight meetings during the period under review. The activities of the Committee proved helpful in promoting better understanding between the management and the employees and contributed toward the solution of a number of problems.

In the 1955-56 Report there is no mention of the known fact that the Indian Airlines Corporation lost a substantial amount of money, although it sets down that the Air-India International Corporation made a nice profit. The 1956-57 Report does not even refer to the two important reports done by the estimates committee on the airlines corporations (Nos. 41 and 43). One periodical commented : "As the investigations carried out by the estimates committee during the period under review must be regarded as an event of vital importance to civil aviation in India, it is remarkable that the minister has passed this civil aviation report for publication with such a glaring and obvious omission."[21] One final example shows gross carelessness in reporting.

[19]A.H. Hanson, "Report on the Reports : The Nationalised Industries, 1950-51", *Public Administration*, XXX, Summer, 1952, pp. 112-113.

[20]The four reports which form the basis of this conclusion are the following: Ministry of Communications, *Report, 1954-55*, Ministry of Communications, *Report, 1955-56*; Ministry of Transport and Communications, *Report, 1956-57*; Ministry of Transport and Communications, *Report, 1957-58*.

[21]*Indian Skyways* July, 1957, p. 9.

The following paragraph appears in the ministry of transport and communications' annual report 1956-57:

> Two meetings of the Facilitation Committee, a committee for simplifying procedures and formalities with a view to facilitating air transport, established by the Civil Aviation Department were held during 1956-57. Representatives of foreign airlines, the A.I.I., the I.A.C., the Ministries of Communications, Finance (Revenue Department), Health and Transport and of the D.G. of C.A. participated in these meetings. Problems relating to health, immigration and customs clearance were discussed at the meetings with a view to simplifying the procedure and eliminating avoidable formalities.

If one merely changes the dates in the above paragraph from "1956-57 to 1957-58", one has the ministry's comment of this committee for the next year. It need hardly be pointed out that at the time both these reports were published, the ministry of transport and the ministry of communications were not even in existence. They had been combined into a ministry of transport and communications, as the titles of the reports clearly indicate. The standard of reporting in India badly needs improvement. For the present, accountability of Indian public enterprises to parliament in this manner seems to be limited in effectiveness.

III

In the absence of suitable information being provided, the natural and, in many ways, commendable reaction has been that parliamentarians have actively sought information through other channels—an activity which tends to encroach upon the 'autonomy' of the public enterprises. The question hour is a case in point. Admittedly, a real effort is made to disallow questions which inquire into the day-to-day administration of the undertakings. A recent directive from the Speaker's office clarifies this position :

> It is stated for the information of members that broadly speaking, admissibility of questions relating to statutory corporations and limited companies in which government have financial or controlling interest is regulated generally in the following manner on the merits of each case:
>
> (*i*) where a question (*a*) relates to a matter or policy or (*b*) refers to an act or omission of an act on the part of a minister, or (*c*) raises a matter of public interest, although seemingly it may

pertain to a matter of day-to-day administration or an individual case, it is ordinarily admitted for oral answer.

(*ii*) A question which calls for information of statistical or descriptive nature is generally admitted as unstarred.

(*iii*) Questions which clearly relate to day-to-day administration and tend to throw work on the ministries and the corporations in commensurate with the result to be obtained therefore are normally disallowed.[22]

But although this sifting may take place in the secretariat, no such effort in this direction is being attempted on the floor of the House. The supplementary questions probe deeply into the administration of the 'autonomous' enterprises, even though the initial question may have been judged admissible and within the jurisdiction of the minister to whom it was addressed. The minister is completely within his right to refuse to answer supplementaries which inquire into matters which are the concern of the board of directors. Indeed, to answer such question is to accept by implication responsibility for decisions over which he does not have any specified control. It would not improve this situation if the minister were advised to parry every supplementary which he considered to be beyond his responsibility, for such a course would serve only to heighten distrust on the part of the members. On the other hand, it would be politically unrealistic to instruct members to withhold questions which infringed on the 'autonomy' of the public enterprises. The Speaker, however, is in a position to intervene during question hour and disallow supplementaries of this nature. He should be especially vigilant in this regard.

The actions of the financial committees of the Indian parliament are even more glaring proof of the tendency on the part of parliamentarians to move from their proper role of receiving reports and accounts to one of attempting to stimulate, guide and restrain the 'autonomous' enterprises. A random example from one of the reports of the public accounts committee reveals this tendency. In examining the accounts of one government company (Indian Telephone Industries Ltd.) for the year 1950-51 in their Tenth Report (First Lok Sabha), the committee found, among other things, that about Rs. 95 lakhs of public money had been spent indiscriminately on stock which was not being used. They argued that this showed lack of proper planning and foresight and recommended that disciplinary action be taken against the official at fault. And the chairman of the estimates committee has quite proudly

[22] *Bulletin*, Part II (New Delhi: Lok Sabha Secretariat, November 18, 1958), pp. 1431-1432, para. 2005. The Speaker called attention to this directive during the course of a parliamentary question on the State Trading Corporations : *Lok Sabha Debates*, Second Series, Vol. X (September 17, 1958), cols. 6837-6838.

admitted that "while examining the undertakings...the Committee made no attempt to exclude any aspect of their working from its purview merely on considerations of their autonomy..."[23] The following analysis suggests the effectiveness of the Committee:

Analysis of the Action taken by the Government of India on the Recommendations contained in four Reports of the Estimates Committee (First Lok Sabha) on the Public Enterprises

Results of Inquiry	*13th Report*	*16th Report*	*22nd Report*	*27th Report*
Total No. of recommendations made	50	23	30	40
Recommendations accepted fully by the government :				
No.	20	6	9	13
Percentage of total	40	26.1	30	32½
Recommendations accepted by the government partly or with some modifications :				
No.	4	7	3	4
Percentage of total	8	30.4	10	10
Recommendations not accepted by the government but replies in respect of which have been accepted by the committee :				
No.	18	—	6	4
Percentage of total	36	—	20	10
Recommendations not accepted by the government (including those which are still under consideration by the government) :				
No.	8	10	12	19
Percentage of total	16	43.5	40	47

We may conclude from the above data that over 30 per cent of the recommendations, of the committee on public enterprises, have been generally accepted by the government, that a substantial percentage of recommendations are not accepted, and therefore, most significantly, that there is real and continuous discussion and argument about the enterprises between the Central ministries and the estimates committee.

The recommendations contained in the estimates committee's

[23]Balvantray Mehta, "Public Enterprises and Parliamentary Control", *The Indian Journal of Public Administration*, IV April-June, 1958, p. 148.

reports vary between matters of general financial improvement and matters of detail. Two consecutive recommendations in one report tend to the extreme in each instance, but they serve to make the point :

> In view of the general position of the (Nahan) Foundry, no large capital investment should be made so long as the new items of manufacture are in the experimental stage.
> The rollers of the Sultan Cane Crusher should be made of a bigger diameter as the size of the roller directly affects the crushing capacity.[24]

If this trend towards too much probing is not watched and restrained, the effective operation of the public enterprises, which are generally held to be 'crucial' by the Indian Government, will be jeopardised.[25]

IV

With parliament taking such a keen interest in certain enterprises, the tendency is that decision-making is bunched in the hands of the minister, who retains it in order to authoriatively counter criticism. The heavy concentration of representatives of the ministries on the boards of directors in the clearest example of this situation. The failure to invest a large degree of autonomy in decision-making at the level of the board of directors defeats the very purposes for which the companies and corporations were designed. It is a dictum of human nature that men muster a defence when attacked. It is, therefore, understandable that ministers are reluctant to delegate responsibility when they are continually criticised for failure to effect detailed policy for which they are assumed to be responsible. To break this vicious circle will require statesmanship of the highest order, not merely on the part of the minister but equally on the part of the parliamentarian. For although both may be acting honourably to perform their functions as completely as the situation allows, the result of over-zealous performance of duty in this case is a concentration of decision-making at the top, an over-burdening of an already over-worked government and a neglect of the lower echelons in the administrative hierarchy who ought, rightly, to make the great bulk of the decisions.[26]

[24]Estimates Committee, *Thirteenth Report* (First Lok Sabha), Appendix IV, p. 42.

[25]The term 'crucial' in this context is present in the Second Five Year Plan, p. 51.

[26]Professor Paul Appleby has argued: "In number, at least 90 per cent of the decisions necessary to the conduct of a large enterprise would be made below the level of the Managing Director". *See* his report *Re-Examination of India's Administrative System with Special Reference to Administration of Government's Industrial and Commercial Enterprises.* New Delhi: Cabinet Secretariat, 1956, p. 58,

Stepping further in this line of thought, the concentration of decision-making at the top results in poliferation of controls in the hands of the administrator and the legislator in order that each may strengthen its defence to carry on the 'cold war' in New Delhi. This heightens distrust between the two, resulting in unnecessary effort to an unnecessary cause to which the parties concerned can ill-afford to devote their busy time-schedules. Perhaps most importantly, to divest the enterprises themselves of needed powers to carry on their business functions is to jeopardise dangerously their chances of success. The need to obtain prior permission for any action of consequence from persons obviously less involved in the daily functioning of specialised commercial and business concerns tends to paralyse business management attempting to succeed in a new and experimental field of business endeavour. The chances are that competent business personnel would seek employment elsewhere. India is short of this commodity. Yet Indian public policy demands rapid industrialisation which of necessity depends on a public sector to initiate key industries due to lack of private capital. I submit that the deficiency in the accountability relationship is one of the principal culprits in this *malaise*.

And it should be one of the easiest to eradicate. The accountability devices must be improved. Implementation of the estimates committee's recommendations (given above) would move smartly towards solving the deficiencies in the budget documents so that members might appreciate both what the enterprises are doing and how they are doing it in order to understand their problems and authorise their financial requirements on the basis of accurate information. Annual reports by both the public enterprises and the ministries concerned can be written more attractively, objectively and comprehensively. They must be.

V

There is a *vital* distinction between accountability and control vis-a-vis the 'autonomous' public enterprises. The term 'parliamentary control' is a misnomer, except in its ultimate sense. Control at this level is (or should be) like the blade at the top of the guillotine; it need *not* fall to be politically effective. However, parliament *must* be openly accounted to in order that it may authorise policy so that, democratically, the minister can implement it. By properly delineating the concepts of accountability to parliament and of ministerial control, the tight knot which these relationships find themselves in at present might be loosened. In short, if the *accountability* to parliament is improved along the lines suggested, the desire on the part of members of parliament to *control* will abate. Effort in this direction will also relieve the elements of distrust in these relationships. Distrust thrives in ignorance. To account properly is to inform confidently. □

Public Policy and Performance of State Public Enterprises—A Comparative Study*

G. Venkatswamy

IN THIS article, an attempt has been made to study the State public sector undertakings. Many studies have been done on Central enterprises by individual researchers, independent institutions and government bodies. But studies on State public enterprises have been conspicuous by their negligible number. During the quarter century of planning in India, public enterprises have assumed great importance in the Indian economy, even though the State public enterprises have not grown to the same extent as the Central public enterprises during the period. Nonetheless they too have recorded substantial growth. "The State Government undertakings are about two and half times the number of Central Government undertakings. The total paid-up capital investment of the State Governments in government companies is 1966-67 aggregated to Rs. 104 crores, against that of the Central Government companies amounting to Rs. 1,270 crores and, out of the Rs. 104 crores, Rs. 91 crores were in 151 government companies formed by the State Governments on their own initiative".[1] Of late, nearly 250 public undertakings are functioning under the various State Governments.[2] It has been estimated that by 1978, the public sector would have a cumulative investment of about Rs. 8,300 crores against Rs. 5,200 crores in the private sector. In view of this, the study of these undertakings is of topical interest.

The objectives of the study are to examine the policy of the government for setting up these enterprises at the State level; their investment, forms and preferences, and the relative financial performance of the

*From *Indian Journal of Public Administration*, Vol. XXIV, No. 4, 1978, pp. 973-989.

[1]Raj, K. Nigam, "The Public Sector in India—A Survey", Ed. Vadilal Dagli, Vora & Co. Publications (P) Ltd., Bombay-2, 1969, p. 207.

[2]Number of State enterprises in different States, see Appendix I.

enterprises in Andhra Pradesh, Karnataka and Kerala have been discussed. While discussing the problems, suggestions have been made for the overall improvement of these enterprises.

SCOPE AND METHODOLOGY

The study is confined to State public enterprises in Andhra Pradesh, Karnataka and Kerala, in other words, those enterprises where the State Governments have invested 51 per cent or more share capital and enterprises which are covered by the Comptroller and Auditor-General of India (CAG).[3] The enterprises in which the State Governments have invested substantially (more than Rs. 10 lakhs) but which are not subject to audit by the CAG are excluded from the study.[4] The enterprises studied are mostly organised as government companies/public corporations. The departmental undertakings are excluded.

It is not the purpose here to say in which State the enterprises are more efficient, because they differ in size, investment, nature and number; nor is it a case study of inter-enterprise comparison. In order to maintain uniformity in comparison, the top ten enterprises in these States have been taken up. Their investment, profits, losses, are the criteria for comparison. As data is not within reach, other aspects like welfare measures, township, employment, etc., have not been studied for comparison.

PERIOD AND SOURCE OF DATA

In contrast to Central Government undertakings for which data is available in official reports published every year, information on State Government undertakings is neither adequate nor easily accessible. This is a serious limitation in making a comprehensive or aggregate study of the scope, finances, and performance of these undertakings giving any such study an all-India orientation that would facilitate comparison of their working with Central Government undertakings or even at inter-State level for contiguous States.

The comparative performance of the undertakings in this article is for the financial year 1975-76. The reports of the CAG, the Committee on Public Undertakings and the annual reports of individual State Public enterprises of Andhra Pradesh, Karnataka and Kerala have been

[3]CAG is authorised to conduct audit under section 619(3)(b) of Companies Act, 1956.

[4]*Andhra Pradesh*: The Vazir Sultan Tobacco Co. Ltd. (28.66); the Associated Cement Co. Ltd. (35.16); the Sirpur Paper Mills. Ltd. (84.86). *Karnataka:* the Mysore Cements Ltd. (23.46); the Mysore Paper Mills Ltd. (14.50); the Tata Engineering & Locomotive Co. Ltd. (10.82). *Kerala*: Punalur Paper Mills Ltd. (13.27); the Travancore Rayons Ltd. (35.63); the Indian Aluminium Co. Ltd. (21.20); the Premier Tyres Ltd. (60.00); the Parry & Co. Ltd. (13.50); the Madura Coals Ltd. (19.97); the Apollo Tyres Ltd. (25.00). (Figures in the brackets are Rupees lakhs).

useful. Certain adjustments have had to be made to bring out uniformity in the collection and tabulation of data.

PUBLIC POLICY

Viewed from the national context, the role of the State Governments in India appears to be segmental in the total process of economic administration. While it is axiomatic that for various considerations the Central Government has a definite role to play, the legitimate place of the State Governments is to be rightly appreciated. While the Central Government has every right to indicate, formulate and even to finance the enterprises, their actual management and operation fall under the State sphere of activity. Their efficacy and efficiency are dependent upon the attitudes adopted by, and encouragement given to these enterprises by the State Governments. Therefore, it seems to be worthwhile to go a little into the raitonale of the public sector, not as an apology or as a defence of it, but to understand specifically the policy of the government and the purpose for which these State enterprises are created. The rationale for setting up these enterprises goes back to the Industrial Policy Resolution, 1948, of the Government of India. This resolution clearly demarcates areas in which State undertakings will progressively play a dominant part. This was embodied in the Industrial Policy Resolution of 1956 which states:

> The adoption of the socialistic pattern of society as the national objective, as well as the need for planned and rapid development require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances could provide, have also to be in the public sector.

Such industries as are of strategic importance for the defence development of the country, basic industries like iron and steel, heavy machine building, heavy electrical equipment, ship-building and electricity are reserved for the public sector. In certain other areas such as machine tools, basic and intermediate products for chemical industries, fertilisers, certain non-ferrous metals like aluminium, road transport, etc., both the public and private sectors can operate. The remaining field is generally left to the private sector though the State would also participate, if necessary. For quite some time, there has been a demand for a revision of the Industrial Policy Resolution of 1956. The Government of India announced certain modifications in 1970 and 1973. The most important change is the formation of joint-sector

industries, *i.e.*, units which have been set up and managed jointly by the government and private industrial houses.

Since the inception of the five year plans, repeated emphasis is given for expansion of public enterprises under government control and ownership. For instance, the Fourth Plan categorically asserts that the public sector is to have the commanding heights in the production and distribution of basic and consumer goods. Similarly, the draft Sixth Plan (1978-83) has emphasised that public sector operations should steer the distribution of essential commodities, infrastructure facilities and social services in favour of low income consumers.

Now the spectrum of public sector undertakings covers almost all sectors of the economy, *i.e.*, agriculture, commerce and industry, finance and banking, education and research, public utilities and cultural and social affairs.

The policy of the Government of India *vis-a-vis* the objectives and goals of the public sector sought to be achieved are : (*i*) to provide the infrastructure for promoting a balanced and diversified economic growth; (*ii*) to promote self-reliance in strategic areas; (*iii*) to reduce regional imbalances; (*iv*) to prevent concentration of economic power in the hands of few individuals;(*v*) to increase employment opportunities; (*vi*) to help the economically weaker sections of society to achieve a high standard of living, (*vii*) to generate surpluses for reinvestment by the State to accelerate development; (*viii*) to implement social control of trade or industry where government considers this to be essential for ensuring equitable distribution or the general well-being; and (*x*) to serve other socio-economic needs as may arise from time to time.

As far as the setting up of State Government enterprises is concerned, there is neither a separate policy as in the case of Central enterprises, nor a separate Act (like the Public Enterprises Act) for the purpose. It is true that the State Government have followed the policy of the Central Government in setting up State enterprises. Now the time has come to rethink about the organisation, expansion and areas of operation for State Government enterprises in view of the increasing number and extension of these enterprises and in view of the Janata Government's announced policy of rural development.

INVESTMENT, FORMS AND REFERENCE

Table 1 gives an idea of the investment made in the top ten enterprises in the three States. Andhra Pradesh tops the list with an investment of Rs. 570 crores followed by Karnataka and Kerala with Rs. 557 crores and Rs. 335 crores, respectively. Taking individual enterprise investment, the Andhra Pradesh State Electricity Board leads followed by the Kerala State Electricity Board and the Mysore Power Corporation Ltd.

TABLE 1 INVESTMENT IN TOP TEN STATE PUBLIC SECTOR UNDERTAKINGS IN ANDHRA PRADESH, KARNATAKA AND KERALA

Andhra Pradesh			Karnataka			Kerala		
Undertaking	*Investment (Rs. lakhs)*	*Per cent to total invest-ment*	*Undertaking*	*Investment (Rs. lakhs)*	*Per cent to total invest-ment*	*Undertaking*	*Investment (Rs. lakhs)*	*Per cent to total invest-ment*
APSEB	40976.12	71.82	Mysore Power Corpn. Ltd.	21756.89	39.04	Kerala State Elec. Board	26077.70	5.93
APSRTC	6257.95	11.00	Karnataka SEB	21232.56	38.10	Kerala SRTC	1987.16	5.93
Singareni Collieries Ltd.	4844.17	8.48	Visvesvaraya Steel Ltd.	5563.39	9.98	The Travancore Cochin Che. Ltd.	1590.21	4.75
AP Ind. Dev. Corpn. Ltd.	1670.69	2.92	Karnataka State Road Tra. Corpn.	3175.87	5.70	The Plantation Corpn. Ltd.	863.41	2.58
Nizam Sugar Factory Ltd.	729.42	1.28	NGEF Ltd.	1471.67	2.64	Travancore Titanium Products Ltd.	829.91	2.48
AP State Agro-Ind. Corpn. Ltd.	655.09	1.15	Karnataka Agro-Ind. Corpn. Ltd.	907.88	1.63	Kerala Shipping Corpn. Ltd.	658.97	1.97
AP State Cons. Corpn. Ltd.	550.75	0.97	Mysore Sugar Co. Ltd.	479.53	0.86	Transformers & Ele. Kerala Ltd.	506.29	1.51
Republic Forge Co. Ltd.	531.51	0.93	The Hutti Gold Mines Co. Ltd.	472.31	0.85	Kerala Fisheries Corpn. Ltd.	399.88	1.19
AP Small Scale Ind. Dev. Corpn. Ltd.	446.00	0.78	Radio & Ele. Mfg. Co. Ltd.	456.07	0.82	Kerala State Electronics Dev. Corpn. Ltd.	324.19	0.97
*Indo-Nippon Prec. Bearing Ltd.	381.32	0.67	Chitradurga Copper Co. Ltd.	214.50	0.38	Kerala Agro-Indust. Corpn. Ltd.	271.02	0.81
Total	57043.62	100.00		55730.67	100.00		33508.74	100.00

N.B. A.P. Industrial Development Corporation stands fifth with an investment of Rs. 990.30 lakhs at the end of 1974, if subsidiaries are included.

*For the year 1974-75.

Table 2 shows that there are 151 State public sector undertakings in the three States together as of March 1976. There are 126 companies, 13 departmental undertakings and 12 public corporations. As per information available, in the number of enterprises, Kerala (62) comes first, followed by Karnataka (46) and Andhra Pradesh (43). There are 58 companies in Kerala, 37 in Karnataka and 31 in Andhra Pradesh. There are four public corporations/boards in each State. Mostly, they are organised as public utility concerns and/or financial corporations. The number of departmental undertakings are 8 in Andhra Pradesh and 5 in Karnataka. This information is not available for Kerala. Of the departmentally run enterprises, and Government Text Book Press, the Life Insurance Department and the Government Distilleries in Andhra Pradesh and the Government Electric Factory, Government Sandal Oil Factory in Karnataka are prominent examples.

TABLE 2 FORMS OF STATE PUBLIC ENTERPRISES IN ANDHRA PRADESH, KARNATAKA AND KERALA

State	*Departmental Undertakings*	*Government Companies*	*Corporations/ Boards*	*Total*
Andhra Pradesh	8	31 (10)	4	43
Karnataka	5	37 (10)	4	46
Kerala	not available	58 (8)	4	62
Total	13	126 (28)	12	151

NOTE: Figures in bracket are subsidiary companies.

Further, the table shows that most of the State public enterprises in the three States are joint stock companies. In these States, besides departmentally run enterprises, company and corporation forms of public enterprises are also important.[5] As pointed out earlier the biggest public sector undertakings—from the view point of employment of resources in men and money—are the AP State Electricity Board in Andhra Pradesh, the Mysore Power Corporation Ltd. in Karnataka and the Kerala State Electricity Board in Kerala. It may be noted that government company form is the dominant and popular form of organisation in State public enterprises in the three States. This is in

[5]For details see author's "Profile of Public Enterprises in Andhra Pradesh", *Indian Journal of Commerce*, June, 1978.

conformity with the general pattern and preference for company form adopted at the central level and it is perhaps influenced by the central public enterprise pattern.

It may be noted that the word 'corporation' may give a deceptive look of a statutory corporation to a joint stock company. The AP Industrial Development Corp., the Karnataka Agro-Industries Corpn., the Kerala State Electronics Development Corpn. are, for example, companies registered under the Companies Act. Further, all the statutory corporations do not use, the word 'corporation' as part of their name. For example, Air India and Indian Airlines have dropped this word which once formed part of their names, and in Oil & Natural Gas Commission, this term has been replaced by 'Commission'.

PERFORMANCE

There are some enterprises which declared dividend in the financial year 1975-76. In Karnataka out of the 18 companies which made profit during the year, five (including two subsidiaries) declared dividend amounting to Rs. 72.42 lakhs representing 8.9 per cent of their aggregate paid-up capital of Rs. 867.88 lakhs. Those which declared dividend are the Hutti Gold Mines Company Ltd., the NGEF Ltd., the Mysore Minerals Ltd., the Mysore Sales International Ltd., and the Marketing Consultants and Agencies Ltd. The dividend amount declared was between Rs. 0.06 to Rs. 60.00 lakhs. Similarly, in Kerala out of 18 companies (excluding 5 subsidiaries) which earned profit totalling Rs. 234.28 lakhs, 4 declared dividend of Rs. 39.92 lakhs. These are: the Kerala State Financial Enterprises Ltd., the Kerala Urban Development Finance Corporation Ltd., the Kerala State Drugs and Pharmaceuticals Ltd. and the Transformers and Electricals, Kerala, Ltd. The dividend amount varied between Rs. 0.37 lakhs to Rs. 1.80 lakhs. In Andhra Pradesh, as per information available in the CAG report, though some enterprises made profit, no enterprise declared dividend during the year under study.

Table 3 gives the total profit made by the top ten individual undertakings in each State. The total profit during the year under study (1975-76) was Rs. 15.87 crores in Karnataka, Rs. 12.22 crores in Andhra Pradesh and Rs. 3.43 crores in Kerala. The percentage of profit on capital employed in individual enterprises was the highest in the Nizam Sugar Factory (19.2 per cent) followed by the Republic Forge Co. (18.3 per cent) and the Indo-Nippon Precision Bearing Ltd. (14.9 per cent) in Andhra Pradesh; the Mysore Minerals and Metals Ltd. (88 per cent) followed by the Hutti Gold Mines Co. Ltd. (25.3 per cent) and the NGEF Ltd. (25.2 per cent) in Karnataka; the Kerala Financial Enterprises (30.3 per cent) followed by the Kerala Minerals and Metals Corpn. Ltd. (18.2 per cent) and the Kerala State Small Industries

TABLE 3 TOP TEN PROFIT MAKING STATE PUBLIC ENTERPRISES IN ANDHRA PRADESH, KARNATAKA AND KERALA, 1975-76

Andhra Pradesh				*Karnataka*				*Kerala*			
	Profit (Rs. lakhs)	*Per cent of RCI*	*Per cent of RCE*		*Profit (Rs. lakhs)*	*Per cent of RCI*	*Per cent of RCE*		*Profit (Rs. lakhs)*	*Per cent of RCI*	*Per cent of RCE*
The Singareni Collieries Ltd.	381.55	12.1	14.0	KSEB	377.94	9.4	13.4	KSEB	60.00	2.41	3.88
AP State Road Transport Corpn.	223.69	6.4	9.5	NGFF Ltd.	359.70	27.5	25.2	Transformers and Electrical	85.96	16.98	14.65
AP State Elec. Board	208.83	4.6	5.6	Mysore Power Corpn. Ltd.	355.32	3.8	4.6	Kerala Financial Corpn.	55.85	—	8.40
The Nizam Sugar Factory Ltd.	151.19	20 7	19.2	VIS Ltd.	165.38	5.5	7.1	Plantation Corpn Ltd.	43.53	9.38	9.98
AP State Financial Corpn.	102.25	9.5	9.5	The HGM Co. Ltd.	102.26	25.5	25.3	KSIDC Ltd.	21.61	—	5.03
AP Industrial Dev. Corpn. Ltd.	48.44	—	4.1	MM Ltd.	101.47	90.3	88.2	KS Financial	18.62	—	30.30
Indo-Nippon Precision Bearing Ltd.	36.54	12.6	14.9	KSFC	52 08	—	7.3	KS Small Ind. Corpn. Ltd.	17.93	17.88	15.24
Republic Forge Co. Ltd.	35.51	9.7	18.3	Mysore Sugar Co Ltd.	48.52	10.8	13.2	Traco Cable Ltd.	13.81	10.68	12.62
AP Mining Corpn. Ltd.	19.01	7.7	10.6	KF Civiles Corpn. Ltd.	17.09	52.5	11.7	KS Warehousing Corpn. Ltd.	13.41	12.14	12.83
AP State Warehousing Corpn. Ltd.	14.75	14.1	14.9	Mysore Sales Inf. Ltd.	7.14	16.8	15.1	Kerala Mineral & Metals Ltd.	12.28	15 40	18.18
Total	1221.75				1586.90				343.00		

RCE=Return on capital employed. CE represents net fixed assets (excluding capital works-in-progress) plus or minus working capital.
RCI=Return on capital invested. CI represents paid-up capital plus long-term loans plus free reserves at the close of the year.

Corpn. Ltd. (15.2 per cent). Further, the return on capital invested varied between 5 per cent to 7 per cent in Andhra Pradesh, 4 per cent to 53 per cent in Karnataka and 2 per cent to 30 per cent in Kerala. On the whole, the profit position is not remarkable though some enterprises did fairly well. The combined details of the financial performance of all the companies/corporations in the three States can be had from Table 4.

There were many enterprises which incurred loss during 1975-76 in the three States (Table 5). Taking the top ten losing enterprises, the total loss was Rs. 14.33 crores in the three States together. Units in Kerala were losing heavily compared to the other two States—to the extent of Rs. 9 crores, followed by Karnataka (Rs. 4.4 crores) and Andhra Pradesh (Rs. 1.1 crores). The individual units responsible for a major portion of the loss (to the total loss) are the Kerala State Road Transport Corpn. (Rs. 417 lakhs), the Travancore Cochin Chemicals Ltd. (Rs. 134 lakhs), the Kerala Fisheries Corpn. Ltd. (Rs. 77 lakhs) in Kerala; the Karnataka Agro-Industries Corpn. Ltd. (Rs. 141 lakhs), the Karnataka State Road Transport Corpn. (Rs. 130 lakhs) and the Radio Electricals Manufacturing Co. Ltd. (Rs. 68 lakhs) in Karnataka; the AP State Construction Corpn. Ltd. (Rs. 50 lakhs), the AP State Agro-Industries Corpn. Ltd. (Rs. 37 lakhs) and the AP Steels Ltd. (Rs. 14 lakhs) in Andhra Pradesh. If we take all the undertakings into account, there were 47 enterprises (49 per cent) which incurred an aggregate loss to the extent of Rs. 15 crores in the three States. From the point of view of the number of enterprises which incurred loss, it was more in Kerala (22) followed by Karnataka (16) and Andhra Pradesh (9). Further, the number of companies which incurred loss was 45 (including 13 subsidiaries) to the extent of Rs. 9 crores.

Regarding corporations/boards, no undertaking incurred loss in the year under study (1975-76) in Andhra Pradesh, but two corporations, namely, the Karnataka State Road Transport Corpn. (Rs. 130 lakhs) and the Kerala State Road Transport Corpn. (Rs. 416 lakhs) put together incurred a total loss of Rs. 5 crores. There is a need for a study of one cause for the losses, if not all, a few important causes have been analysed and explained below.

Public sector undertakings play an important role in achieving the national objective of economic and social development by balanced regional growth. These units also contribute substantially to the State's economy in which they are located by creating employment opportunities, developing infrastructural facilities like power, roads and setting up of social amenities like housing, hospitals, dairies, schools, recreation centres, etc. Though a precise estimate of these benefits is difficult to arrive at, one cannot deny that public sector undertakings contribute significantly to the social welfare of the people of different regions.

TABLE 4 COMBINED FINANCIAL PERFORMANCE OF STATE PUBLIC ENTERPRISES IN ANDHRA PRADESH, KARNATAKA AND KERALA 1975-76

	No. of companies	Companies that earned profit (Rs. lakhs)	Companies that incurred loss (Rs. lakhs)	Aggregate profit/loss (Rs. lakhs)	Paid-up capital (Rs. lakhs)	Per cent of profit to paid-up capital
Andhra Pradesh	12	658.11 (8)	59.56 (4)	598.55	3798.31	15.7
Karnataka	24	1168.90 (14)	252.85 (10)	916.05	12850.60	7.1
Kerala	36	234.28 (18)	494.63 (18)	(—)260.35	4358.56	—
Total	72	2061.29 (40)	807.04 (32)	1254.20	21007.47	
Subsidiary companies						
Andhra Pradesh	7	0.37 (2)	16.34 (5)	(—) 15.97	175.11	—
Karnataka	9	12.24 (4)	70.67 (5)	(—) 58.43	191.69	—
Kerala	5	2.36 (2)	13.82 (3)	(—) 5.73	111.52	—
Total	21	14.97 (10)	100.83 (13)	(—) 80.13	478.32	
Corporations/Boards						
Andhra Pradesh	4	549.52 (4)	—	549.52	35623.33	15.4
Karnataka	4	438.10 (3)	416.77 (1)	21.33	21077.61	0.1
Kerala	4	129.26 (3)	129.81 (1)	(–) 0.65	27442.36	—
Total	12	1116.88 (10)	546.58 (2)	570.20	84143.30	

N.B. : Figures in brackets indicate the number of undertakings.

TABLE 5 TOP TEN LOSING ENTERPRISES IN ANDHRA PRADESH, KARNATAKA AND KERALA, 1975-76

Andhra Pradesh	*Loss (Rs. lakhs)*	*Karnataka*	*Loss (Rs. lakhs)*	*Kerala*	*Loss (Rs. lakhs)*
Andhra Pradesh Sate Construction Corpn. Ltd.	50.16	Karnataka Agro-Indus. Corpn. Ltd.	141.30	Kerala State Road Transport Corpn.	416.77
A.P. State Agro-Indus. Corpn. Ltd.	36.66*	Karnataka State Road Transport Corpn.	129.81	Travancore Cochin Chem. Ltd.	134.18
A.P. Steels Ltd.	13.49	Radio Electricals Mfg. Co. Ltd.	68.18	Kerala Fisheries Corpn. Ltd.	77.45
A.P. State Irrigation Development Corpn. Ltd.	8.54	Chitradurga Copper Co. Ltd.	28.89	Kerala State Cashew Dev. Corpn. Ltd.	74.86
Sponge Iron India Ltd.	1.84	Karnataka Agro-Corn. Products Ltd.	22.53	Kerala Electrical & Allied Eng. Co. Ltd.	44.42
A.P. Refractories Ltd.	0.72	Karnataka State Construction Corpn. Ltd.	19.06	Kerala Ceramics Ltd.	42.99
A.P. Fisheries Corpn. (P) Ltd.	0.45	Mysore Tobacco Co. Ltd.	18.67	Trivandrum Rubber Works Ltd.	34.11
A.P. State Trading Corpn. Ltd.	0.41	Mysore Chrome Tanning Co. Ltd.	6.88	Kerala Land Dev. Corp. Ltd.	19.56
A.P. Rayons Ltd.	0.28	Karnataka Fisheries Dev. Corpn. Ltd.	5.49	State Farming Corpn. of Kerala Ltd.	18.46
A.P. Technocrats Industrial Estate (P) Ltd.	0.01	Karnataka State Tourism Dev. Corpn.	3.49	United Electrical Industries Ltd.	13.02
Total	112.56		444.30		875.82

*At the end of June, 1974.

Apart from this, most of the State public undertakings have been recently set up and some of them are yet to start production. The AP State Irrigation Development Corpn. Ltd. (September 1974), the AP Technical Industrial Estate (P) Ltd. (March 1975), the AP Refractories Ltd. (March, 1975), the AP Rayons Ltd. (March 1975) in Andhra Pradesh, the Karnataka Fisheries Development Corpn. Ltd. (October 1970), the Karnataka State Forest Industries Corpn. Ltd. (March, 1973), the Karnataka Agro-Corn Products Ltd. (April 1973) in Karnataka and the State Farming Corpn. of Kerala Ltd. (April 1972) and the Kerala Land Development Corpn. Ltd. (December 1972) in Kerala illustrate this point.

However, public enterprises have been under constant attack in the press, private industry, in parliament and legislatures. A leading industrialist recently commented: "Public sector undertakings must give adequate return on their investments. The government and politicians harm the common man's interest when they want to support and sustain public sector enterprises more on their ideological basis than for remunerative operations. It hurts the common man's interest because not only he pays for their failure but he becomes the victim of ever increasing taxation and inflation."[6] The spokesmen for the government and public sector undertakings on the other hand argue that "Public sector undertakings are, no doubt, enjoined to observe business and commercial principles, but it is obvious that profit motive cannot be the overriding factor in their case as it is in private enterprise. For example, in matter such as state trading, location of projects in backward regions or operation of domestic air service on uneconomic routes, public interest rather than profit motive is the deciding factor. Unlike the private sector where profit is the motive force, the main objective in the public sector ought to be public good. Besides promoting and sustaining economic growth, public enterprises should strive to supply the community, products and services of standard quality and at reasonable prices."[7] By itself it should be educative to learn how capital expenditure decisions[8] are made for public sector undertakings in accommodating both the commercial and social objectives.

PROBLEMS AND SUGGESTIONS

The problems of these enterprises are manifold. They are, the lack of the objective of profitability, the absence of feasibility studies, improper investment policy, delay in commissioning and implementation of

[6]S.L. Kirloskar as reported in *Economic Times*, Bombay, February 26, 1970.

[7]ARC Report cited in Public Sector—'Profit *vs* Social Objectives', *Economic Times*, February 11, 1970.

[8]For details see, Raj, A.B.C., Dynamics of Capital Budgeting Decisions of Public Enterprises in India—A Conceptual Framework, Boston, 1972 (mimeographed).

production programmes, over capitalisation, high cost of production and poor costing system, under utilisation of capacity, excessive inventories, surplus staff in some enterprises, shortage of financial resources, high interest charges and depreciation, inadequate demand for the products in the market and competition from unorganised units, labour troubles, uneconomic selling prices, power failures, drought conditions and local disturbances.[9]

There is no proper machinery to study the working of these undertakings when they are growing rapidly, both in terms of number and investment. It would not be improper to quote the Andhra Pradesh Committee on Public Undertakings: "The entire State sector would suffer if there is no machinery to review the working of the public sector undertakings constantly". The Committee feels that "mere enlargement of nationalisation programme will not in any way help unless adequate steps are taken by government to create machinery comprising different types of expertise required—technical, financial—for review and analysis of all aspects of working of public sector undertakings, for critically studying new investment proposals, etc., thus ensuring the government to take adequate steps for their proper functioning."[10] The CPU of Karnataka is also of the same opinion.

The State Governments have a large financial stake in the public sector undertakings. In view of their rapid expansion, the investment in these undertakings would go up in the future years. It is, therefore, necessary to review the working of these undertakings at various stages—both in construction and production stages. For conducting such reviews, a small body consisting of technical experts like production engineers, management experts, financial experts, etc., should be employed. The Andhra Pradesh CPU[11] has also recommended that the setting up of a small body consisting of persons well versed in the appropriate technical and financial disciplines: (*i*) to scrutinise the feasibility reports, the project reports, and the proposals for starting new projects; (*ii*) where a project is under construction, to keep a close watch over the progress of construction both with reference to time limit and financial target, (*iii*) to obtain and review periodical progress reports from the undertakings regarding their working with a view to ensuring the utilisation of the optimum capacity, fulfilment of targets, etc.; (*iv*) to conduct studies in depth of each undertaking with a view to identifying weak spots and advising the State Government about steps to be taken to remedy the defects; and (*v*) finally, to present a consolidated report to the legislature every year bringing out in a compact form the activities

[9]For detailed explanation see author's dissertation on Working of State Public Enterprises in Andhra Pradesh, Osmania University, Hyderabad, 1977.

[10]CPU Report (Fifth Legislative Assembly), 1972-73, Andhra Pradesh, p. 9,

[11]*Ibid*., p. 10.

and results of the functioning of the undertakings during the year under report, the areas of weakness noticed, remedial steps taken, etc.

The ultimate owners of public sector undertakings are the public at large. They are not aware of the objectives or the organisational goals, if any, of the State public enterprises. Time has come to spell out a uniform and rational financial policy—such as the rate of return, by the Central Government either for all the State public enterprises or for different classes of enterprises, taking into account their different social objectives, gestation periods, nature and size of the enterprises, etc., so that the managers will have a goal to work for. Secondly, reviewers will have a norm to judge by. Thirdly, consumers will be in a position to judge individual, sectoral and enterprise performances keeping in view their own as well as the nation's interests.

The capital structure of most of the State enterprises is not favourable. The debt-equity ratio in State enterprises in Andhra Pradesh[12] varied considerably between 10.5:1 and 0.02:1. Similarly, it varied between 8.0:1 and 1:1 in Karnataka enterprises.[13] It is not clear as to why these wide variations from the accepted norm of 1:1 have been existing in these enterprises. It is necessary that whenever a departure from the accepted norm of 1:1 is to be allowed, the State Government should examine the debt-equity ratio of each to ensure that there is proper justification for it.

One problem faced by many State enterprises is frequent change of top level management. For instance, in the Mysore Iron & Steel Ltd. there were three managing directors between June 1970 and June 1972, in the Mysore State Agro-Industries Corpn. there were three chairmen between May 1971 and June 1972, in the Mysore State Urban Development Corpn. Ltd. there were three chairmen and three managing directors between December 1970 and 1972. Similarly, in the AP Agro-Industries Corpn. Ltd., there were two managing directors between June 15, 1971 and June 28, 1971. The Karnataka CPU was distressed to note such frequent changes which are not conducive to efficient management. It is absolutely necessary that certain continuity at top management should be ensured in the interest of efficient administration of the State undertakings.

The appointment of part-time official nominees to the boards of State public enterprises is deplorable. The ARC has suggested that the persons nominated to the boards should not have to serve more than 2 or 3 boards because they should not be over-burdened and as it becomes difficult then to play a useful role in the board meetings. It is, however, seen that in some cases an officer is nominated to as many as

[12]See author's dissertation on Working of State Public Enterprises in Andhra Pradesh, Osmania University, Hyderabad, 1977, p. 116.

[13]CPU Report, Mysore Legislature Secretariat, Bangalore, 1972-73, p. 101.

18 companies.[14] For instance, the chairman and managing director of the Mysore State Industrial Investment Development Corpn. was nominated to the chairmanship of 8 other companies and as director for 9 other companies between 1966 and 1972. The Director of Industries and Commerce was nominated to the directorship of 12 boards in addition to the membership of the Bangalore Water Supply and Sewerage Board between February 1969 and May 1973. The Commissioner for Industries and Secretary to Government, Commerce and Industries Department, was nominated to the chairmanship of 2 companies and directorship of 10 other companies between April 1971 and November 1972.

The Secretary, MIISDC is serving on the board of 13 companies. The Joint Secretary to Government, Finance Department, was nominated to the directorship of 4 companies in addition to the membership of Bangalore Turf Club and Mysore State Road Transport Corpn. There are a number of enterprises where MLAs and MPs representing on the boards. For instance, the Mysore State Fisheries Development Corpn. Ltd., the Mysore State Urban Development Corpn. Ltd., the Mysore Agro-Industries Corpn. Ltd., the Radio and Electricals Manufacturing Company Ltd. in Karnataka, the AP State Agro-Industries Corpn, Ltd., the AP Small Scale Industrial Development Corpn. Ltd., the AP State Road Transport Corpn., the AP Refractories Ltd., the AP Raynons Ltd. in Andhra Pradesh, the Kerala Agro-Industries Corpn. Ltd., the Plantation Corpn. of Kerala Ltd. in Kerala are some examples to make the point.

Sometimes the personal interests of political leaders are responsible for such irregularities and disorderliness in appointing top personnel of public enterprises in Karnataka. For instance, "the plethora of nominated chairmen, directors or members of a long list of corporations subserved the Chief Minister for personal political ends and helped him to consolidate his influence in the face of frequent challenges to his leadership. Further the former (sic) Chief Minister had appointed 77 party MLAs as members of land tribunals and another batch of 47 MLAs as non-official chairmen of corporations and other statutory bodies".[15] Therefore, there is need for examining the representation of MPs/MLAs on the boards of State enterprises in different States. The example set by the Government of India in regard to this has to be followed rigorously.

A recent study of industrial potentialities in Andhra Pradesh by IDBI and others, has rightly pointed out that "all of these (development undertakings) seem to be ailing and handicapped in varying degrees. The main handicap would seem to be the fact that they lack continuity and

[14]CPU Mysore Legislature (Fifth Legislature), Bangalore, 1972-73, pp. 25-26.
[15]Dismantling Power Base, *The Hindu*, February 4, 1978.

professionalism in management."[16] This situation is more or less the same with only a degree of difference in all these three States. Therefore, it is necessary to implement the recommendation of the ARC and it should be ensured that the selection of persons to be nominated to the boards of State public sector undertakings should be on the basis of ability, experience and administrative competence, and without any conflict of interests. A person selected on the board should identify himself with the interests of the undertaking.

Like the Central Government undertakings, the profit position of State enterprises is still not very satisfactory. The problem of State enterprises, however, is easier as compared to that of the Central Government enterprises where a complex set of factors have adversely affected the results. If a few vital posts like the chief executive, the financial officers, the marketing and personnel managers, etc., are filled by competent people, recruited from the open national market, if objectives—social, economical and financial—of the enterprises are defined, if a continuous system of evaluation of performance in relation to objectives is carried out, the burden of government deputationists lessened, cost consciousness among the executives created, healthy industrial relations within and outside the enterprises promoted, through participative methods, most of the State public enterprises can easily turn the corner. In fact, a few of them have already turned the corner by paying attention to these requirements. □

[16]Industrial Potential Survey—Andhra Pradesh, Report of a Study Team sponsored by IDBI and other Institutions, 1974, p. 39.

Appendix I

NUMBER OF STATE PUBLIC ENTERPRISES IN DIFFERENT STATES, 1975

State	*Number of Undertakings*	*Rank*
Andhra Pradesh	39	2
Assam	20	6
Bihar	14	10
Gujarat	12	11
Haryana	10	13
Himachal Pradesh	7	17
Jammu & Kashmir	9	16
Karnataka	34	3
Kerala	32	4
Maharashtra	28	5
Madhya Pradesh	9	15
Meghalaya	1	20
Manipur	2	18
Nagaland	1	19
Orissa	44	1
Punjab	15	9
Rajasthan	16	7
Tamil Nadu	10	12
Uttar Pradesh	16	8
West Bengal	10	14

SOURCE: *Public Enterprises in India*, Ed. Ziauddin Khan and Arora, New Delhi, 1975.

Public Corporations in Bangladesh: An Assessment of Their Administrative Aspects*

Habib Mohammad Zafarullah

THE YEAR 1971 left Bangladesh with a war-torn economy. The industrial sector, in particular, presented a dismal look with nearly all activities coming to a standstill. The Pakistani entrepreneurs and managers, who so long controlled the industrial machinery, left the country, creating a vacuum in all branches of the sector.

The government of the new state was faced with the task of restoring the industries by taking over the responsibility of directing and controlling the public sector as well as the abandoned industrial units for "operational efficiency and managerial effectiveness". A presidential order brought the control and management of certain industrial and commercial concerns into the hands of the government. This was followed by large scale nationalisation of the industrial sector[1] and the establishment of public corporations for coordinating and overseeing the operation of industrial enterprises. The nationalisation policy was designed to make an optimum use of all available factors of production and to ensure distributive justice in society as far as profit or economic surpluses are concerned. Consequently, eleven sector corporations[2] were created and the different industrial or commercial units placed under them. Later, reorganisation of the administrative machinery brought

*From *Indian Journal of Public Administration*, Vol. XXIV, No. 4, 1978, pp. 990-98.

[1]Nationalisation brought 85 per cent of the assets of the industrial sector under government control. See, Government of Bangladesh, *The Bangladesh Industrial Enterprises* (*Nationalisation Order*, 1972.

[2]These corporations were: The Jute Industries Corporation, the Cotton Mills Corporation, the Sugar Mills Corporation, the Steel Mills Corporation, the Paper and Board Corporation, the Fertiliser, Chemical and Pharmaceutical Corporation, the Engineering and Shipbuilding Corporation, the Minerals, Oil and Gas Corporation, the Food and Allied Industries Corporation, the Forest Product Corporation and the Tanneries Corporation.

down their number to six.[3]

The purpose of this paper is to make an appraisal of the managerial aspects of the industrial corporations in Bangladesh and to identify the constraints in the operation of the enterprises under them.

GENERAL FEATURES

Industrial corporations in Bangladesh operate as national undertakings on a commercial and economic basis and are designed to meet the demands of the people efficiently and economically. These corporations have been established by executive orders rather than by Acts of Parliament and are defined by law to be body corporates having perpetual succession and each having a common seal with power to hold or dispose of property.

These corporations are wholly owned by the government. The corporations as the major (and in some cases, the only) shareholders of the individual enterprises, guide and assist them in the achievement of the objectives of the industry within the guidelines of the government's policy, their functions being confined to supervision and coordination of the operating industrial units. The government sets the overall policies and objectives for the industrial undertakings and provides the environment in which these can be achieved. The operating enterprises, as set forth in the official guidelines, are to act with the maximum commercial autonomy to achieve individually their share of the required contribution of the sector.[4] On paper these are the defined roles of the government, corporations and the operating enterprises. In practice, however, they do not fit into their roles in the right perspective. The relationship between the ministry of industries as the policy maker and the corporations as the regulating agency for the operating enterprises has not been delineated in adequate detail. The outcome has been procrastination in decision-making, difficulties in specifying responsibilities and hindrances in the way of initiating action.[5] This has led to high-handedness of the

[3]The Food and Allied Industries Corporation was merged with the Sugar Mills Corporation; the Paper and Board Corporation, the Tanneries Corporation at the Fertiliser, Chemical and Pharmaceutical Corporation merged into one corporation named the Chemical Industries Corporation: the Steel Mills Corporation and the Engineering and Shipbuilding Corporation merged into the Steel and Engineering Corporation; and the Jute Industries Corporation and the Cotton Mills Corporation were renamed as the Jute Mills Corporation and the Textile Mills Corporation, respectively. See, *CENTAS Bulletin*, Vol. 1, No. 2 (February, 1976), Center for Administrative Studies, Dacca, pp. 7-8.

[4]Government of Bangladesh, Cabinet Secretariat, *Guidelines on the Relationship Between Government and Autonomous Bodies' Corporations and the Autonomous Bodies' Corporations and Enterprises under them* (May, 1976). The terms enterprises, operating units, industrial undertakings and companies are used here interchangeably.

[5]Government of Bangladesh, Planning Commission, *The First Five Year Plan 1973-78*, p. 251.

controlling bureaucrats in the ministry in the affairs of the corporations and the operating enterprises.

The corporations have manifested certain features that have had a negative effect on the performance of the operating units. Lack of trained managers, financial and labour problems, inadequate planning and lack of management guidelines, undue interference by the government in the affairs of the corporations, and the lack of uniform personnel policies and working procedures have contributed to low level performance. And, as the authors of the country's first five year plan pointed out:

> Production targets, efficiency levels, cash surplus generation and other defined objectives should be spelt out for the corporations and by the corporations for the enterprises. Absence of precise targets makes it difficult to evaluate performance, motivate workers and identify and correct lapses.[6]

THE DIRECTING STAFF

The general direction and administration of the affairs of an industrial corporation in Bangladesh is vested in the chairman, the directors and the secretary. Together they constitute both the board of directors and the top operating executive group of the corporation. This board is not independent of government control and superintendence. In the discharge of its functions it is 'guided' by the government. Policy-making, approval of the budget, appointment of the auditors, reviewing of audit reports and performance evaluation of the corporation are in the hands of the relevant ministry. Even the appointment of the directors is made by the government and their services regulated by the terms and conditions as determined by the appointing authority. The board of directors decides the commercial or promotional policies of the corporation but these also must be consistent with the policies and directives issued by the government. In deciding operational matters it has to consider the commercial worth and economic viability.

The chairman and the directors of a corporation have taken on an incredible range of responsibilities, their activities falling into four categories. First, as directors of the corporation they are responsible for general management, planning and ensuring policy implementation.[7] In this capacity they guide the corporation's investment programme, manage its financial resources and administer the disinvestment of the corporation's industrial undertakings to the private sector.

[6]Government of Bangladesh, Planning Commission, *op. cit.*

[7]Regulations provide for the establishment of a planning, research and evaluation cell to aid the directors. The functions of this cell would be to prepare the annual development programmes and compile performance reports. *Guidelines.*

In their second capacity, the directors serve, individually or collectively, as members of the board of directors of the operating enterprises. In this capacity they take on the responsibility for the efficient and profitable operation of these enterprises.

Thirdly, the chairman and directors assume responsibility for the planning and construction of the proposed or on-going projects. They supervise the physical progress and monitor their expenses.

In their fourth capacity the directors serve as the *de facto* chief executive officers of the operating units. Practically all operating decisions of real importance are referred to them. Many decisions of minor importance are also made by them, while some major ones are even referred to the ministry. For example, no officer may be transferred from one project to another, even in the interest of the corporation, without the approval of the ministry.

The directors are thus continually engaged in a wide variety activities of ranging in magnitude from the planning of multimillion *taka* projects to the approval of Tk. 250 appointments.

THE DIVISIONS

The line, or the industrial division, has an ambiguous position that has never been defined. Their senior executive officers do not act as chief executives of the operating units. One reason is that the staff divisions, which have extensive activities in these enterprises, do not report to them, but to the directors. To further confuse the lines of authority, the staff divisions and industrial divisions report to different directors. The industrial divisions must therefore rely on agreement among the directors for the final decisions in conflicts involving matters such as accounting, purchase, or construction. In line operating matters their authority does not significantly exceed that of the general managers of the companies, *i.e.*, the enterprises. For these reasons, and partly from an induced habit of dependence, the senior executive officers of the divisions bring most of their problems to the directors for resolution. Decisions seem either to get made at the companies or to be carried all the way to the directors.

Together the staff divisions perform for the operating companies many of the services that in a non-corporation owned company would be performed by the company's own staff reporting to its chief executive officer. Thus the purchase division determines purchase procedures, buys all machinery and machine tools involving foreign exchange, and purchases most items for use by more than one project.

The accounts division establishes the company's accounting systems, determines the forms, documents and statements to be used, exercises control over cash credits and sales accounts of the companies and exercises technical, but not administrative, control over the company's chief

accounting officer. The accounts division requires the submission of monthly financial statement (P & L and balance sheets) from the companies.

The secretariat deserves special mention. This division holds a firm grip on personnel management throughout the corporations. Its control extends not only throughout the head office establishments, but also into every project and company. In matters of staffing patterns (*i.e.*, employee and officer 'set up'), salaries and wages, labour relations, hiring of officers above the very lowest levels, officers, transfers, promotions and special increases, and personnel policies and service rules, the secretariat has authority exceeding not only that of general managers of the company but also that of the senior executives of the divisions. Every project and company must refer these matters to the secretariat for decision or approval. In addition to personnel matters, the secretary, through his role as actual executor of the chairman's decisions, exercises considerable influence over corporate affairs.

The relationship between the general managers, senior executive officers and directors, as described here, is generalised and, of necessity, over-simplified. There is, of course, no single pattern of relationship. Much depends upon the individuals involved, on their experience, their personalities, and their sense of security in their positions. In most cases, the general managers seem to lean heavily on the senior executives; in a few cases, however, they seem virtually to ignore them. One or two of the senior executives appear to take strong and independent action. Others seem to cling to the directors. The explanation of these different patterns of behaviour is intricate and not within the scope of this paper. It is sufficient to know that the organisation structure of an industrial corporation in Bangladesh is such as to induce the general pattern of relationships described here.

THE OPERATING ENTERPRISES/COMPANIES

The number of enterprises or companies under the different corporations is enormous. This has resulted in a heavy management burden that already taxes the managerial capacity of the corporation almost to the breaking point. These enterprises, making a variety of producer's and consumer's goods, are managed by a management/enterprise board. This is supposed to be the highest policy-making body at the enterprise level. Governmental regulations provide for a chief executive (usually a general manager), a corporation appointee, and a workers' representative in the board. The chief executive's major responsibilities are to ensure the proper implementation of the policies of the board and keep the corporation informed about his enterprise. The corporation appointee serves as the vital link between the corporation and the enterprise. He provides overall guidance to the enterprise board and makes certain that

the policies of the enterprise are in keeping with the objectives of the corporation. The workers' representative is to be selected according to rules. All enterprises do not strictly adhere to having such a representative. Some even do not have a corporation appointee.

Each company is operated by a general manager, in residence at the works, assisted by a corps of administrative and technical officers; the senior among them are appointed by the corporation head office. The senior officers are, with few exceptions, permanent corporation employees assigned to the company, rather than truly members of the company itself.

These companies have, in fact, no chief executive officer, and no single point at which the authority and responsibility for their operations converge. Authority and responsibility are scattered among the general manager, the corporation directors, and the staff and line divisions at the head office. The chief executive officer of an industrial company is normally charged with the responsibility to utilise fully the plant and equipment entrusted to him, to produce quality goods at low cost, and to sell them at a price that will maximise returns on the company's investment. Obviously, the general managers of the industrial corporations in Bangladesh cannot be so charged, because many of the decisions necessary to achieve these goals are made by others. The nature and composition of the company's capital investment are decided prior to their involvement. Not being a member of the board of directors of their companies in most cases, the general managers are not a direct party to policy decisions. In many cases the purchase of raw materials is either made by the head office[8], (jute, for example), or the price is controlled (cane and cotton, for example), or it is brought in from abroad at a price over which the general managers have no influence (pig iron, for example). Sales and/or selling price (*e.g.*, jute goods, sugar, molasses, cement) are frequently beyond their control[9]. Senior officers are posted to their companies by the head office of the corporation, frequently without their prior consultation or consent, following a staffing pattern ('officer set-up') usually developed by the head office, and which is frequently excessive. Being corporation personnel, that is,

[8]The corporations would be concerned in advising the government in determining the pricing and procurement policies. Subject to foreign currency control procedures, purchase invoice control and invoice payments should be carried out at the enterprise level. Bulk purchase, *i.e.*, purchase of the same item required for more than one enterprise or of an item of a very high value, may be made centrally at the corporation level. *Guidelines*.

[9]Corporations have the authority to fix prices of goods and services produced by their enterprises except when such fixation relates to public utilities or essential commodities and services as may be specified by the government. In fixation of prices/rates of such public utilities and essential commodities and services, prior approval of the government would have to be obtained. *Guidelines*.

corporate officers, rather than permanent officers of the operating companies, the loyalties, attachments and useful contacts of these posted officers are likely to remain with the head office. Labour policy, wages and hours of work and service rules, are established in Dacca, leaving the general managers only the day-to-day administration of labour.

The general managers are thus more accurately entitled 'works managers', or 'factory managers'. They keep things going, get the production out, and treat the everyday problems of the officers and workers. They receive stores and ship goods, keep account of the flow of materials, supplies and products. They maintain the plant and mind its security. And they correspond with the head office.

This tight rein and limited authority give an illusion of control over the companies. But this is a deception for only in the most narrow accounting sense are the companies under any control. While the *paisas* are watched and well accounted for, millions of *takas* are lost through untaken opportunities and overlooked needs.

RELATIONSHIP BETWEEN OPERATING COMPANIES AND CORPORATIONS

Corporation and operating company relations are confused and strained. The strain is mostly felt by the general managers who operate with insufficient authority and at a distance from the decision centre at Dacca, where anxiously awaited matters in their behalf seem to move at a glacial pace.

The prime object of the general manager's ire is the secretariat which acts, in effect, as his personnel department. The recruitment, transfer, promotion and special increments to officers with salary of Tk. 475 and above are virtually controlled by the secretariat. In the view of the general managers this control is sometimes abused. Chief accounting officers, reportedly, have been transferred from one company to another at a time when they were most needed to close the company's books. This has been done without the concurrence of the general managers. Unnecessary and unwanted and most incompetent officers, reportedly, have been assigned to the companies. Officers posted to a company have been known to correspond with friends in the secretariat at the corporation head office to work out a transfer without the knowledge of their general manager. In addition, some of the officers (accountants, medical officers, for example) are under dual authority. Administratively they report to the general manager, but in substantive matters they report to their respective divisions. Since the senior executives of the industrial divisions to whom the general managers report have little more authority in these matters than the general managers themselves, the general managers are powerless to bring effective persuasion to the secretariat. One of the most frustrating part of the

general manager's job is his need to motivate and lead his senior officers to better achievement despite his lack of authority to reward or punish them.

Another source of grievance of the general managers is the reporting burden imposed on them and their officers. They feel, and with apparent justification, that the head office calls for too many reports, and too frequently; that many are redundant and some are totally unnecessary; and that almost all are poorly designed and wrongly conceived. The principle of exception reporting, in which exceptional situations that require head office attention are strongly featured and where routine affairs are either omitted, or greatly condensed, is seldom employed. Instead, voluminous reports reach the head office and, in spite of their size and frequency of arrival, they usually fail to convey adequately the essential information. Very few standardised and preprinted forms are provided for these reports. Most of the hours spent in this activity could be saved through a study of reporting and forms analysis. At the head office, these reports, as often as not, are poured over and picked apart by the junior people, many of whom do not really understand their meaning.

There is no better measure of the dependence of the operating companies/enterprises on the head offices of the corporations, and of the confused nature of that relationship, than an analysis of the destinations of the companies' correspondence. All companies make over 50 per cent of their correspondence with the head office; in some cases this is as high as 80 per cent. The balance alone is with suppliers, customers, contractors and others. This obviously should not be the case.

CONCLUSION

Efficiency, professional competence, decentralised authority and workers' participation have been identified as the underlying principles for administering the nationalised enterprises in Bangladesh.[10] Thus, any plan for organisational improvement of the industrial corporations should start with the reduction in the work load and in the variety of responsibilities of the chairman and the directors. Decentralisation of decision and control is essential for the continued growth of the corporations. The position of the general manager should be redefined from that of a factory manager to that of a chief executive officer. Within broad policy directives, he should have authority and responsibility to utilise fully the plant entrusted to him, to produce quality goods at low cost, and to sell these goods at prices that will maximise long range returns on his company's investment.

The operating companies should immediately concentrate their

[10]Government of Bangladesh, Planning Commission, *First Annual Plan*, 1972.

attention on sales and marketing and must go out and sell, extend and service their markets, and behave, in short, like commercial undertakings if they are to become a public asset and not a drain on the public purse.

The need for a massive programme of change and rationalisation in the organisation structure and management methods of the corporations is there. It is felt that the decision for such essential change would have to be taken at the highest level of the governmental hierarchy. The time has come for extensive organisational changes and the government should make all effort to bring about that change. □

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